**IN THE UNITED STATES DISTRICT COURT**
**FOR THE NORTHERN DISTRICT OF TEXAS**
**DALLAS DIVISION**

| | | |
|---|---|---|
| BO SHEN, Individually and On Behalf of All Others Similarly Situated,<br><br>Plaintiff,<br><br>v.<br><br>EXELA TECHNOLOGIES, INC., RONALD COGBURN, JAMES G. REYNOLDS AND PAR CHADHA,<br><br>Defendants. | §<br>§<br>§<br>§<br>§<br>§<br>§<br>§<br>§<br>§<br>§<br>§<br>§ | Civil Action No. 3:20-cv-00691-D |

**APPENDIX OF EXHIBITS IN SUPPORT OF DEFENDANTS' MOTION TO DISMISS**

Defendants Exela Technologies, Inc. ("Exela"), Ronald Cogburn, James G. Reynolds and Par Chadha, by and through undersigned counsel, respectfully submit this Appendix in support of their Motion to Dismiss.

**INDEX OF EXHIBITS**

| EX. | DOCUMENT | DATE | APP. PAGE(S) |
|---|---|---|---|
| 7 | Q3 2018 Earnings Call Transcript | 11/08/2018 | 328-342 |
| 8 | Q4 2018 Earnings Call Transcript | 03/18/2019 | 343-359 |
| 9 | Exela Form 10-K (2018) | 03/20/2019 | 360-491 |
| 10 | Q1 2019 Earnings Call Transcript | 05/09/2019 | 492-505 |
| 11 | Exela Form 10-Q (Q1 2019) | 05/10/2019 | 506-548 |
| 12 | Exela Form 10-Q (Q2 2019) | 08/08/2019 | 549-597 |
| 13 | Q2 2019 Earnings Call Transcript | 08/08/2019 | 598-610 |
| 14 | Exela Form 10-Q (Q3 2019) | 11/12/2019 | 611-660 |
| 15 | Q3 2019 Earnings Call Transcript | 11/12/2019 | 661-673 |
| 16 | Exela Form 10-K (2019) | 06/09/2020 | 674-876 |
| 17 | Exela Form 8-K and Press Release | 06/09/2020 | 857-876 |
| 18 | Q4 2019 Earnings Call Transcript | 06/09/2020 | 877-891 |

Dated: October 12, 2020

Respectfully submitted,

NORTON ROSE FULBRIGHT US LLP

/s/ *Gerard G. Pecht*

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*Counsel for Defendants*

## CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing document was filed with the Court's electronic case filing (ECF) system on October 12, 2020, which caused an electronic copy of this document to be served on all counsel of record in this matter who have registered for ECF service.

/s/ *Gerard G. Pecht*

Gerard G. Pecht

**IN THE UNITED STATES DISTRICT COURT**
**FOR THE NORTHERN DISTRICT OF TEXAS**
**DALLAS DIVISION**

| | | |
|---|---|---|
| BO SHEN, Individually and On Behalf of All Others Similarly Situated, | § | |
| Plaintiff, | § | |
| v. | § | Civil Action No. 3:20-cv-00691-D |
| EXELA TECHNOLOGIES, INC., RONALD COGBURN, JAMES G. REYNOLDS AND PAR CHADHA, | § | |
| Defendants. | § | |

**DECLARATION OF PETER A. STOKES**

In accordance with the Federal Rules of Civil Procedure, I, Peter A. Stokes, do hereby declare as follows. My name is Peter Andrew Stokes. I am an attorney licensed to practice law in the State of Texas. I am an attorney at the law firm of Norton Rose Fulbright US LLP, attorneys of record for Defendants Exela Technologies, Inc. ("Exela"), Ronald Cogburn, James G. Reynolds and Par Chadha. The facts contained herein are true and correct based on my personal knowledge and investigation.

Exhibit 1 to this declaration is a true and correct copy of a Form 10-K filed with the U.S. Securities and Exchange Commission (the "SEC") by Exela on or about March 16, 2018, which an employee of my law firm obtained from the SEC's public website at my direction.

Exhibit 2 to this declaration is a true and correct copy of a Form 10-Q filed with the SEC by Exela on or about May 5, 2018, which an employee of my law firm obtained from the SEC's public website at my direction.

Exhibit 3 to this declaration is a true and correct copy of a transcript of Exela's Q1 2018 Earnings Call on or about May 10, 2018, which an employee of my law firm obtained from S&P Global Market Intelligence.

Exhibit 4 to this declaration is a true and correct copy of a Form 10-Q filed with the SEC by Exela on or about August 9, 2018, which an employee of my law firm obtained from the SEC's public website at my direction.

Exhibit 5 to this declaration is a true and correct copy of a transcript of Exela's Q2 2018 Earnings Call on or about August 9, 2018, which an employee of my law firm obtained from S&P Global Market Intelligence.

Exhibit 6 to this declaration is a true and correct copy of a Form 10-Q filed with the SEC by Exela on or about November 8, 2018, which an employee of my law firm obtained from the SEC's public website at my direction.

Exhibit 7 to this declaration is a true and correct copy of a transcript of Exela's Q3 2018 Earnings Call on or about November 8, 2018, which an employee of my law firm obtained from S&P Global Market Intelligence.

Exhibit 8 to this declaration is a true and correct copy of a transcript of Exela's Q4 2018 Earnings Call on or about March 18, 2019, which an employee of my law firm obtained from S&P Global Market Intelligence.

Exhibit 9 to this declaration is a true and correct copy of a Form 10-K filed with the SEC by Exela on or about March 20, 2019, which an employee of my law firm obtained from the SEC's public website at my direction.

Exhibit 10 to this declaration is a true and correct copy of a transcript of Exela's Q1 2019 Earnings Call on or about May 9, 2019, which an employee of my law firm obtained from S&P Global Market Intelligence.

Exhibit 11 to this declaration is a true and correct copy of a Form 10-Q filed with the SEC by Exela on or about May 10, 2019, which an employee of my law firm obtained from the SEC's public website at my direction.

Exhibit 12 to this declaration is a true and correct copy of a Form 10-Q filed with the SEC by Exela on or about August 8, 2019, which an employee of my law firm obtained from the SEC's public website at my direction.

Exhibit 13 to this declaration is a true and correct copy of a transcript of Exela's Q2 2019 Earnings Call on or about August 8, 2019, which an employee of my law firm obtained from S&P Global Market Intelligence.

Exhibit 14 to this declaration is a true and correct copy of a Form 10-Q filed with the SEC by Exela on or about November 12, 2019, which an employee of my law firm obtained from the SEC's public website at my direction

Exhibit 15 to this declaration is a true and correct copy of a transcript of Exela's Q3 2019 Earnings Call on or about November 12, 2019, which an employee of my law firm obtained from S&P Global Market Intelligence.

Exhibit 16 to this declaration is a true and correct copy of a Form 10-K filed with the SEC by Exela on or about June 9, 2020, which an employee of my law firm obtained from the SEC's public website at my direction.

Exhibit 17 to this declaration is a true and correct copy of the Form 8-K filed with the SEC by Exela on or about June 9, 2020, which an employee of my law firm obtained from the SEC's public website at my direction.

Exhibit 18 to this declaration is a true and correct copy of a transcript of Exela's Q4 2019 Earnings Call on or about June 9, 2020, which an employee of my law firm obtained from S&P Global Market Intelligence.

I declare under penalty of perjury under the laws of the United States of America that the foregoing facts are true and correct.

Executed this 12th day of October, 2020 in Austin, Texas.

*/s/ Peter A. Stokes*
Peter A. Stokes

# Exhibit 1

Use these links to rapidly review the document
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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-K

**(Mark One)**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2017**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission File Number: 001-36788**

# EXELA TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Delaware**<br>(State of or other Jurisdiction Incorporation or Organization) | **47-1347291**<br>(I.R.S. Employer Identification No.) |
| **2701 E. Grauwyler Rd.**<br>**Irving, TX**<br>(Address of Principal Executive Offices) | **75061**<br>(Zip Code) |

Registrant's Telephone Number, Including Area Code: **(844) 935-2832**

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange On Which Registered |
|---|---|
| Common Stock, Par Value $0.0001 per share | The Nasdaq Stock Market LLC |

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the Registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer ☐ | Accelerated filer ☒ | Non-accelerated filer ☐ (Do not check if a smaller reporting company) | Smaller reporting company ☐<br>Emerging growth company ☐ |

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

The aggregate market value of the Registrant's voting common equity held by non-affiliates of the Registrant, computed by reference to the price at which such voting common equity was last sold as of June 30, 2017, was approximately $201,313,414.72 (based on a closing price of $9.92). As a result, the Registrant is an accelerated filer as of December 31, 2017. For purposes of this computation, shares of the voting common equity beneficially owned by each executive officer and director of the Registrant disclosed in the Registrant's Definitive Proxy Statement on Schedule 14A, filed with the SEC on June 26, 2017 were deemed to be owned by affiliates of the Registrant as of June 30, 2017. Such determination should not be deemed an admission that such executive officers and directors are, in fact, affiliates of the Registrant or affiliates as of the date of this Annual Report on Form 10-K. As of March 16, 2018, the Registrant had 152,565,218 shares of Common Stock outstanding.

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### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included in this Annual Report on Form 10-K are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by words such as "may", "should", "would", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "seem", "seek", "continue", "future", "will", "expect", "outlook" or other similar words, phrases or expressions. These forward-looking statements include statements regarding our industry, future events, the estimated or anticipated future results and benefits of the Business Combination, future opportunities for the combined company, and other statements that are not historical facts. These statements are based on the current expectations of Exela management and are not predictions of actual performance. These statements are subject to a number of risks and uncertainties regarding Exela's businesses, and actual results may differ materially. The factors that may affect our results include, among others: the impact of political and economic conditions on the demand for our services; the impact of a data or security breach; the impact of competition or alternatives to our services on our business pricing and other actions by competitors; our ability to address technological development and change in order to keep pace with our industry and the industries of our customers; the impact of terrorism, natural disasters or similar events on our business; the effect of legislative and regulatory actions in the United States and internationally; the impact of operational failure due to the unavailability or failure of third-party services on which we rely; the effect of intellectual property infringement; and other factors discussed in this report under the headings "Risk Factors", "Legal Proceedings", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and otherwise identified or discussed in this Annual Report on Form 10-K. You should consider these factors carefully in evaluating forward-looking statements and are cautioned not to place undue reliance on such statements, which speak only as of the date of this report. It is impossible for us to predict new events or circumstances that may arise in the future or how they may affect us. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this report. We are not including the information provided on the websites referenced herein as part of, or incorporating such information by reference into, this Annual Report on Form 10-K. In addition, forward-looking statements provide Exela's expectations, plans or forecasts of future events and views as of the date of this report. Exela anticipates that subsequent events and developments will cause Exela's assessments to change. These forward-looking statements should not be relied upon as representing Exela's assessments as of any date subsequent to the date of this report.

### DEFINED TERMS

References to the "Company", "we", "us", or "our" in this Annual Report on Form 10-K refer to Exela Technologies, Inc. and its consolidated subsidiaries, and where applicable, our predecessors SourceHOV and Novitex prior to the closing of the Business Combination. "Following is a glossary of other abbreviations and acronyms that are found in this Annual Report on Form 10-K."

*"Annual Report on Form 10-K"* means this annual report on Form 10-K filed by the Company with the SEC pursuant to the Exchange Act.

"*Apollo"* means Apollo Global Management, LLC, together with its subsidiaries and affiliates, as applicable

"*BPA"* means business process automation.

"*BPO"* means business process outsourcing

"*Business Combination*" means the transactions contemplated by the Business Combination Agreement, which closed on July 12, 2017 and resulted in SourceHOV and Novitex becoming our wholly-owned subsidiaries and the financing transactions in connection therewith.

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"*Business Combination Agreement*" means that certain Business Combination Agreement, dated February 21, 2017, among Quinpario Merger Sub I, Inc. ("SourceHOV Merger Sub"), the Company, Quinpario Merger Sub II, Inc. ("Novitex Merger Sub"), SourceHOV, Novitex, HOVS LLC, HandsOn Fund 4 I, LLC and Novitex Parent, L.P., as amended by that certain Consent, Waiver and Amendment, dated June 15, 2017, by and among the Company, SourceHOV Merger Sub, Novitex Merger Sub, SourceHOV, Novitex, Novitex Parent, Ex-Sigma LLC, HOVS LLC and HandsOn Fund 4 I, LLC.

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Common Stock*" means the common stock of the Company, par value $0.0001.

"*EIM*" means enterprise information management,

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

"*GAAP*" means generally accepted accounting principles in the United States.

"*HGM Group*" means, collectively, HOVS LLC and HandsOn Fund 4 I, LLC and certain of their respective affiliates.

"*HITECH Act of 2009*" means the Health Information Technology for Economic and Clinical Health Act, enacted under Title XIII of the American Recovery and Reinvestment Act of 2009.

*"HIPAA"* means the Health Insurance Portability and Accountability Act of 1996.

*"IT"* mean information technology.

"*JOBS Act"* means the Jumpstart our Business Startups Act.

"*MegaCenter"* means the Company's Tier-III document processing and outsourcing centers in Windsor, Connecticut, and Austin, Texas.

"*Nasdaq*" means The Nasdaq Stock Market.

"*Novitex*" means Novitex Holdings, Inc., a Delaware corporation.

"*Novitex Holdings*" means Apollo Novitex Holdings, L.P., a Delaware limited partnership, which is owned and controlled by certain funds managed by affiliates of Apollo.

"*Novitex Parent*" means Novitex Parent, L.P., a Delaware limited partnership, which is owned and controlled by certain funds managed by affiliates of Apollo.

"*PCIDSS*" means the Payment Card Industry Data Security Standard.

"*PIPE Investment*" means the sale of shares of Common Stock in the private placement transaction of Common Stock entered into in connection with the Business Combination.

"*Quinpario*" means Quinpario Acquisition Corp. 2, a Delaware corporation.

"*SEC*" means the United States Securities and Exchange Commission.

"*Securities Act*" means the Securities Act of 1933, as amended.

"*SourceHOV*" means SourceHOV Holdings, Inc., a Delaware corporation.

"*TCJA*" means the Tax Cut and Jobs Act.

"*TPS*" means transaction processing solutions.

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## PART I

### ITEM 1. BUSINESS

Exela Technologies, Inc. ("Exela") is a global business process automation leader combining industry-specific and industry-agnostic enterprise software and solutions (deployed on premise or on the cloud) with decades of experience. We enable our customers' organizations to more efficiently and effectively execute transactions, make decisions, drive revenue and profitability, and communicate critical information to their employees, customers, partners, and vendors. We serve over 60% of the Fortune® 100 and our solutions are deployed in banking, healthcare, insurance and other industries to support mission-critical environments. With the increased scale resulting from our Business Combination in July 2017, we are poised to expand relationships with existing customers and realize substantial synergies.

As part of the broader business process outsourcing ("BPO") industry, our technology-enabled solutions allow global organizations to address the challenges resulting from the massive amounts of data obtained and created through their daily operations. That data, and the supporting technology architecture, have become increasingly complex to manage as the volume, velocity, and variety continue to increase, requiring aggregation and integration across disparate parts of our customers' organizations. To effectively execute transactions and manage mission-critical processes, decisions need to be executed accurately, with rapid turn-around time, and often subject to various regulatory and compliance requirements. We believe our process expertise, information technology capabilities and operational insights enable our customers' organizations to more efficiently and effectively execute transactions, make decisions, drive revenue and profitability, and communicate critical information to their employees, customers, partners, and vendors. With solutions focused on enhancing the user experience, quality, and efficiency of our customers' most critical processes, we believe our value proposition positions us to be a core operations and technology partner to our customers.

We have approximately 22,000 employees as of December 31, 2017 that provide solutions and services to over 3,500 customers worldwide. For the fiscal year ended December 31, 2017, we generated $1,152.3 million of revenue of which approximately 90% is recurring in nature and supported by long-term customer contracts.

Our solutions address the life cycle of transaction processing and enterprise information management, from enabling multi-channel payment gateways and digital mailrooms with data exchanges across siloed systems, to matching inputs against contracts and handling exceptions, to ultimately depositing payments and distributing communications. As a leader in complex information processing, we specialize in transactions that require multiple layers of validation, supporting documentation processing, and reconciliation. Our suite of offerings combines platform modules across information management, payments, finance & accounting, legal & loss prevention, and unified communication services to provide both industry specific solutions, and solutions which span across multiple industries.

At the foundation of our industry-specific solution offerings, we use a combination of data-driven processes, technology, and human capital, delivered through integrated enterprise information management ("EIM") and transaction processing solutions ("TPS") platforms:

- our proprietary EIM platforms facilitate the exchange, consolidation, organization, and analysis of large amounts of structured and unstructured data that are crucial to an enterprise's ability to effectively manage decisions, and enable the presentment of critical information through our unified communication solutions. These platforms can be hosted on customer premises, within our data centers, and/or in a cloud hosting and computing environment.

- our TPS offerings then use the structured data output from our EIM platforms and apply industry and customer specific rules-based data validation, management of exceptions, business

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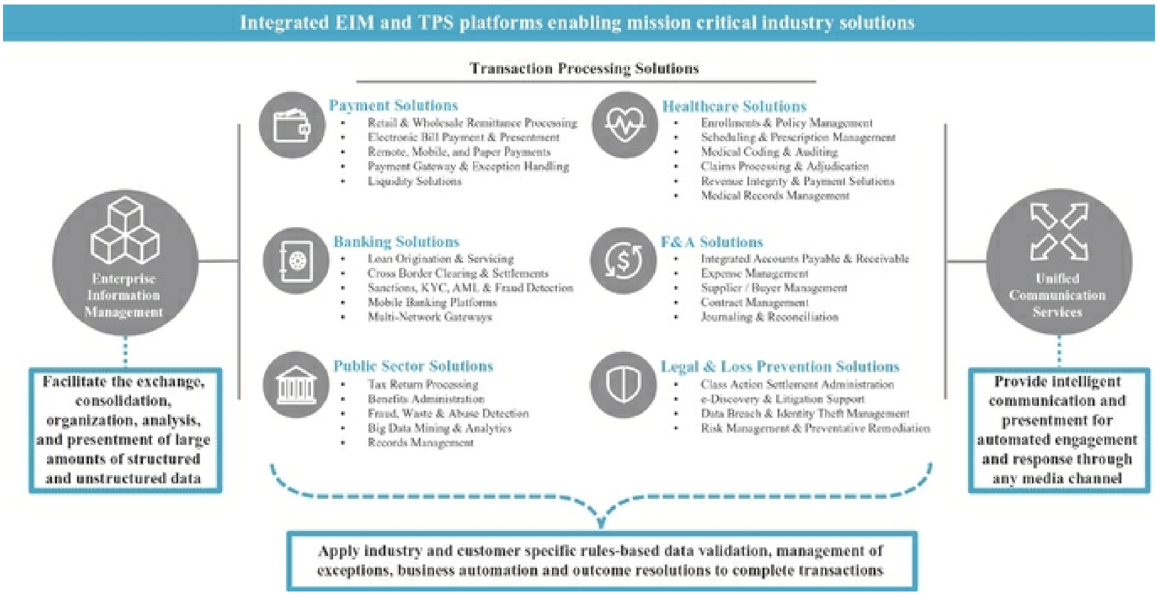
automation, and outcome resolutions to complete transactions, customer interactions, and other operational processes.

- our model is to provide integrated EIM and TPS platforms as industry-specific solutions, with reliable information workflows through data aggregation, seamless connectivity, and automated processes that significantly reduce cycle times and improve quality. As a result, we believe we can execute a wide range of business processes, across multiple industries that are deeply embedded in, and essential to, our customers' most critical organizational workflows.




We seek to develop long-term relationships with organizations that are information-intensive and require specialized processing or subject matter expertise. We offer solutions to highly regulated and information sensitive industries such as healthcare, banking and financial services, insurance, public, legal, and commercial sectors.

We believe that our global presence benefits our customers with a balance of proximity, solutions, and cost to meet their needs. We use a global delivery model to serve multi-national customers in over 50 countries, where we provide solutions from a network of over 1,100 onsite customer facilities and approximately 150 delivery centers, strategically located throughout the Americas, Europe, and Asia. We believe our global delivery model uniquely positions us to offer multi-lingual capabilities, optimize logistical requirements, access a large employee pool, and provide a flexible "right-shoring" solution for our customers.

***Overview of Revenues***

Our business consists of the following three reportable segments:

*Information and Transaction Processing Solutions ("ITPS")*. The ITPS segment is our largest segment, with $827.1 million of revenues for the fiscal year ended December 31, 2017, representing 72% of our revenues. ITPS provides industry-specific solutions for banking and financial services, including lending solutions for mortgages and auto loans, and banking solutions for clearing, anti-money laundering, sanctions, and cross-border settlement; property and casualty insurance solutions for enrollments, claims processing, and communications; public sector solutions for income tax processing, benefits administration, and records management; industry-agnostic solutions for payment

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processing and reconciliation, integrated receivable and payables management, document logistics and location services, records management, and electronic storage of data/documents; and software, hardware, and maintenance related to information and transaction processing automation, among others. We generate ITPS revenues primarily from a transaction-based pricing model for the various types of volumes processed, licensing and maintenance fees for technology sales, and a mix of fixed management fee and transactional revenue for document logistics and location services.

*Healthcare Solutions ("HS").* The HS segment generated $233.6 million of revenues for the fiscal year ended December 31, 2017, representing 20% of our revenues. Our HS offerings include revenue cycle solutions, integrated accounts payable and accounts receivable, and information management for both the healthcare payer and provider markets. Our payer service offerings include claims processing, claims adjudication and auditing services, enrollment processing and policy management, and scheduling and prescription management. Our provider service offerings include medical coding and insurance claim generation, underpayment audit and recovery, and medical records management. As a leader in complex claims processing, we specialize in transactions that require multiple layers of validation, supporting documentation processing, reconciliation, and management of exceptions. We generate HS revenues primarily from a transaction-based pricing model for the various types of volumes processed for healthcare payers and providers.

*Legal & Loss Prevention Services ("LLPS").* The LLPS segment generated $91.6 million of revenues for the fiscal year ended December 31, 2017, representing 8% of our revenues. Our LLPS solutions include processing of legal claims for class action and mass action settlement administrations, involving project management support, notification, and outreach to claimants; and collection, analysis, and distribution of settlement funds. Additionally, we provide data and analytical services in the context of litigation consulting, economic and statistical analysis, expert witness services, and revenue recovery services for delinquent accounts receivable. We generate LLPS revenues primarily based on time and materials pricing as well as through transactional services priced on a per item basis.

Additional financial information for our three business segments is included in Note 17 within our consolidated financial statements.

We provide services to our customers on a global basis. In 2017, our revenues by geography were as follows: $1,001.8 million in the United States (86.9% of total revenues), $135.6 million in Europe (11.8% of total revenues), and $15.0 million from the rest of the world (1.3% of total revenues). We present additional geographical financial information in Note 17 within our consolidated financial statements.

Our revenues can be affected by various factors such as our customers' demand pattern for our services. These factors have historically resulted in higher revenues and profits in the fourth quarter. Backlog is not a metric that we use to measure our business.

**History and Development of Our Company**

Exela is a Delaware corporation that was formed through the strategic combination of SourceHOV Holdings, Inc. ("SourceHOV") a leading global transaction processing company, and Novitex Holding, Inc. ("Novitex"), a cloud-based document outsourcing company, pursuant to a business combination agreement dated February 21, 2017. Formerly known as Quinpario Acquisition Corp. 2 ("Quinpario"), Exela was originally formed as a blank check company on July 15, 2014 and completed its initial public offering on January 22, 2015. In conjunction with the completion of the Business Combination in July 2017, Quinpario was renamed "Exela Technologies, Inc." Exela began trading under the ticker "XELA" on the Nasdaq stock market on July 13, 2017.

The Business Combination was accounted for as a reverse merger for which SourceHOV was determined to be the accounting acquirer. The acquisition of Novitex was accounted for using the acquisition method. As a result, the financial information presented in this Annual Report on

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Form 10-K is not pro forma (unless labeled as such); it includes the financial information and activities for SourceHOV for the entire year ending December 31, 2017, but only reflects the financial information and activities of Novitex for the period following the Business Combination from July 13, 2017 to December 31, 2017.

**Key Business Strategies**

The key elements of our growth strategy are described below:

***Pursue meaningful revenue synergy opportunities.*** We believe we have a number of meaningful revenue synergy opportunities, including expanding the scope of our existing customer relationships, pursuing new customer opportunities, and utilizing our combined platform to develop new process capabilities and industry expertise.

- *Leverage BPA suite across on-site services*. Approximately 6,000 of our employees currently work at customers in an on-site capacity. We believe this on-site presence is a competitive differentiator and a valuable asset as we pursue future growth opportunities. We aim to deploy our BPA software across these customer locations, and we believe that by offering our customers enhanced productivity and quality through our onsite employees, we will create additional opportunities to expand our footprint and wallet share across the organization. For example, in customers where we provide underwriting support and claims processing, we can enable our onsite employees to accelerate the aggregation and analysis of datasets while also increasing accuracy and automatically flagging deficiencies. By enhancing the productivity and quality of our onsite employees, we believe we will increase the demand from our customers to replicate our processes across the organization, bolstering our cross-sell/up-sell initiatives. By having our BPA suite already approved and deployed within existing onsite engagements, we believe our ability to expand into new lines of business will be streamlined and accelerated.

- *Expand relationships with existing customers*. We intend to aggressively pursue cross-sell and up-sell opportunities within our existing customer base. With an installed base of over 3,500 customers, we believe we have meaningful opportunities to offer a bundled suite of services and be a "one-stop-shop" for our customers' information and transaction processing needs. Our sales force will continue to be organized on an industry basis and will be re-deployed to remove duplication, and utilize solutions and relationships to better serve our customers across all levels of their organizations. Our sales force will be incentivized to drive additional revenue opportunities across our bases while also driving higher-margin bundled solutions. As an example, we now offer a full suite of healthcare-focused solutions by bundling enrollments, policy and plan management, claims processing, audit and recovery services, payment solutions, integrated accounts payable and receivable, medical records management, and unified communication services for payers and providers.

- *Pursue new customer opportunities*. We plan to continue to develop new long-term, strategic customer relationships, especially where we have an opportunity to deliver a wide range of our capabilities and can have a meaningful impact on our customers' business outcomes. For example, we plan to dedicate resources within the legal industry in order to pursue opportunities in e-discovery and contract management services.

- *Develop additional process capabilities and industry expertise*. We will focus on developing additional process capabilities and market expertise for our core industries. We will continue to invest in technology and innovation that will accelerate the build-out of our portfolio of next-generation solutions, such as platform-based descriptive and predictive analytics services for processing flows of "Big Data" to help customers gain better insight into their processes and businesses. As an example, on behalf of our customers, we are deploying Big Data automation platforms to analyze individual consumer behavior and interaction patterns to identify

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opportunities for revenue enhancement and loss prevention, and configure optimal outreach campaigns to drive sales, loyalty, and profitability.

***Pursue meaningful cost synergy opportunities and accelerate long-term profitability.*** We have identified significant cost synergies that may result from the closing of the Business Combination. Due to similar operating infrastructures between SourceHOV and Novitex, we continue to believe we have opportunities across information technology, operations, facilities, and corporate functions to achieve cost savings executable over the course of 2 years from the closing of the Business Combination. We believe these cost savings are in the following categories:

- *Information Technology*. We have opportunities for consolidation of Information Technology ("IT") management, insourcing of third-party vendors, and savings related to consolidation of IT services and software license replacement with in-house platforms.

- *Operations*. We have opportunities for data entry offshoring, regional management rationalization, and broader implementation and adoption of our own technology across our organization to replace vendor spend.

- *Facilities*. We have opportunities for lease and headcount savings resulting from facilities consolidation.

- *Corporate and Shared Services*. We have opportunities for cost savings primarily across shared services, including the finance, accounting, legal, and human resources departments, in addition to vendor savings from consolidation of costs such as audit and tax, insurance, and enterprise resource planning.

Additionally, we intend to further improve our margins through increased focus on operational best practices and cost efficiency through further process standardization, increasing use of automation, and increased focus on quality. Our strategy is that over time this will result in margin expansion and enhanced productivity.

***Capitalize on our enhanced scale and operating capacity.*** We intend to utilize our increased global scale and brand recognition to strengthen our ability to bid on new opportunities. We plan to dedicate more resources to pursue whitespace coverage to expand our range of service offerings and pursue additional cross-selling opportunities. We will also look to use our increased scale and operations expertise to improve utilization of our assets. As an example, we will pursue a strategy of consolidating smaller regional document processing centers to our two Tier-III document processing and outsourcing centers in Windsor, Connecticut, and Austin, Texas that we call "MegaCenters," which will increase efficiency through economies of scale. By driving utilization up from the current levels of the MegaCenters, we will benefit from high flow through margins from increased revenues with minimal incremental investment.

**Customers**

We serve over 3,500 customers across a variety of industries, including over 60% of the Fortune® 100. We believe our customers are among the leading players in their respective industries, and many of them are recurring customers that have maintained long-term relationships with us and our predecessor companies.

We have successfully leveraged our relationships with customers to offer extended value chain services, creating stickier customer relationships and increasing overall margins. Customers are increasingly turning to us due to a demonstrated ability to work on large-scale projects, past performance and record of delivery, and deep domain expertise accumulated from years of experience in key verticals. As a result, our stable base of customers and sticky, long-term relationships lead to highly predictable revenues.

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*Customer and Industry Highlights*


We maintain a strong mix of diversified customers with low customer concentration. No customer accounts for more than 10% of 2017 revenue. The diversity of our customer base has contributed to the stability and predictability of our revenue streams and cash flows. We have been able to effectively balance our customer mix and reduce dependency on any single customer or vertical by penetrating a diverse set of end markets.

**Research and Development**

Our ability to continue to compete successfully depends heavily upon our ability to ensure a timely flow of competitive products, services and technologies to the marketplace while also leveraging our domain expertise to demonstrate our understanding in implementing solutions across the industries we serve. Through regular and sustained investment, licensing of intellectual property and acquisition of third-party businesses and technology, we continue to develop new knowledge platforms, applications and supporting service bundles that enhance and expand our existing suite of services. Additional financial information regarding our R&D expense is included in Note 2 within our consolidated financial statements.

**Intellectual Property**

We deploy a combination of internally-developed proprietary knowledge platforms, applications and generally available third-party licensed software as part of our scalable and flexible solutions and services. Our intellectual property is our competitive strength.

Our platforms aim to enhance information management and workflow processes through automation and process optimization to minimize labor requirements or improve labor performance. Our decisioning engines have been built with years of deep domain expertise, incorporating hundreds of thousands of customer and industry specific rules which enable the most efficient and lowest cost preparation and decisioning of transactions. Our business processes and implementation methodologies are confidential and proprietary and include trade secrets that are important to our business. We own a variety of trademarks and patents, which are registered or in the application process.

We regularly enter into nondisclosure agreements with customers, business partners, employees, and contractors that require confidential treatment of our information to establish, maintain and enforce our intellectual property rights. Our licensed intellectual properties are generally governed by written agreements of varying durations, including some with fixed terms that are subject to renewal based on mutual agreement. Generally, each agreement may be further extended and we have historically been able to renew existing agreements before they expire. We expect these and other similar agreements to be extended so long as it is mutually advantageous to both parties at the time of renewal.

**Competition**

We believe that the principal competitive factors in providing our solutions include proprietary platforms, industry specific knowledge, quality, reliability and security of service, and price. We are differentiated competitively given our scale of operations, reputation as a trusted partner with deep

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domain expertise, innovative solutions, and highly integrated technology platforms that provide customers with end-to-end services addressing many aspects of their mission-critical operational processes. We continue to integrate best practice delivery processes into our service-delivery capabilities to improve its quality and service levels and to increase operational efficiencies. The markets in which we serve are competitive with both large and small businesses, as well as global companies:

- Multi-national companies that provide EIM and TPS services, such as Fiserv, Jack Henry, First Data, FIS, Black Knight Financial, Open Text, Broadridge Financial Solutions, Computershare, DST Systems and Iron Mountain;
- Multi-shore BPO companies, such as Genpact, Capita, Cognizant, Exlservice, Conduent, Wipro, and WNS; and
- Smaller, niche service providers in specific verticals or geographic markets.

**Regulation and Compliance**

We handle, directly or indirectly through customer contracts and business associate agreements, a significant amount of information, including personal and health-related information, which results in our being subject to federal, state and local privacy laws, including the Gramm-Leach-Bliley Act, HIPAA and the HITECH Act of 2009. Further, we are subject to the local rules and regulations in the other countries in which we operate, including those relating to the handling of information. In addition, services in our LLPS segment, though not directly regulated, must be provided in a manner consistent with the relevant legal framework. For example, our bankruptcy claims administration services must be provided in accordance with the requirements and deadlines of the United States Bankruptcy Code and Federal Rules of Civil Procedure. In addition, some of our customers are subject to regulatory oversight, which may result in our being reviewed from time to time by such oversight bodies. Further, as a government contractor, we are subject to associated regulations and requirements.

Other laws apply to our processing of individually identifiable information. These laws have been subject to frequent changes, and new legislation in this area may be enacted at any time. Changes to existing laws, introduction of new laws in this area, or failure to comply with existing laws that are applicable to us may subject us to, among other things, additional costs or changes to our business practices, liability for monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to obtain and process information and allegations by our customers and customers that we have not performed our contractual obligations, any of which may have a material adverse effect on profitability and cash flow.

*Privacy and Information Security Regulations*

The processing and transfer of personal information is required to provide certain of our services. Data privacy laws and regulations in the U.S. and foreign countries apply to the access, collection, transfer, use, storage, and destruction of personal information. In the U.S., our financial institution customers are required to comply with privacy regulations imposed under the Gramm-Leach-Bliley Act, in addition to other regulations. As a processor of personal information in our role as a provider of services to financial institutions, we are required to comply with privacy regulations and are bound by similar limitations on disclosure of the information received from our customers as apply to the financial institutions themselves. We also perform services for healthcare companies and are, therefore, subject to compliance with laws and regulations regarding healthcare information, including in the U.S., HIPAA. We also perform credit-related services and agree to comply with payment card standards, including the PCIDSS. In addition, federal and state privacy and information security laws, and consumer protection laws, which apply to businesses that collect or process personal information, also apply to our businesses.

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Privacy laws and regulations may require notification to affected individuals, federal and state regulators, and consumer reporting agencies in the event of a security breach that results in unauthorized access to, or disclosure of, certain personal information. Privacy laws outside the U.S. may be more restrictive and may require different compliance requirements than U.S. laws and regulations, and may impose additional duties on us in the performance of our services.

There has been increased public attention regarding the use of personal information and data transfer, accompanied by legislation and regulations intended to strengthen data protection, information security and consumer and personal privacy. The law in these areas continues to develop and the changing nature of privacy laws in the U.S., the European Union and elsewhere could impact our processing of personal information of our employees and on behalf of our customers. The European Union adopted a comprehensive General Data Privacy Regulation (the "GDPR") in May 2016 that will replace the current EU Data Protection Directive and related country-specific legislation. The GDPR will become fully effective in May 2018. While we believe that we are compliant with its regulatory responsibilities, information security threats continue to evolve resulting in increased risk and exposure. In addition, legislation, regulation, litigation, court rulings, or other events could expose us to increased costs, liability, and possible damage to our reputation.

**Employees**

The continued success of our business is driven by our people. Our senior leadership team has extensive experience within the larger BPO as well as the BPA industry. As we were formed through a series of acquisitions, we have retained an experienced and cohesive leadership team. The combination of our employees with our technology is the backbone of our ability to provide customers with holistic solutions designed to meet the rapidly evolving needs of our customers.

As of December 31, 2017, we had approximately 22,000 total employees, which included approximately 20,700 full-time and 1,300 part-time employees. We have a global workforce with a majority of our employees located in the United States, and the remainder located in Europe, India, the Philippines, Mexico, and China. Our employee count fluctuates from time to time based upon the timing and duration of our engagements. We consider our relationship with our employees to be good.

We locate our operation centers in areas where the value proposition it offers is attractive to the employees in the area relative to other local opportunities, resulting in an engaged workforce that is able to make a meaningful global contribution from their local marketplace. To supplement the skills available in certain markets, we offer our employees a focused set of training programs to increase their skills and leadership capabilities with the goal of creating a long-term funnel of talent to support the Company's continued growth. Additionally, our proprietary platforms enable rapid learning and facilitate knowledge transfer among employees, reducing training time.

**Available Information**

Our website address is www.exelatech.com. We are not including the information provided on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge (other than an investor's own internet access charges) through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission (the "SEC"). In addition, we make available our code of ethics entitled "Global Code of Ethics and Business Conduct" free of charge through our website. We intend to post on our website all disclosures that are required by law or Nasdaq listing standards concerning any amendments to, or waivers from, any provision of our code of ethics.

The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The information contained on the websites referenced in this Form 10-K is not incorporated by reference into this filing.

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## ITEM 1A. RISK FACTORS

*In addition to the other information contained in this Annual Report on Form 10-K, the following risks impact our business and operations. These risk factors are not exhaustive and all investors are encouraged to perform their own investigation with respect to our business, financial condition and prospects. Unless otherwise indicated or the context otherwise requires, references in this "Risk Factors" section to "Exela," "we," "our," "us" and other similar terms refer to Exela Technologies, Inc. and its consolidated subsidiaries.*

**Risks Related to our Business**

***Our results of operations could be adversely affected by economic and political conditions, creating complex risks, many of which are beyond our control.***

Our business depends on the continued demand for our services, and, if current global economic conditions worsen, our business could be adversely affected by our customers' financial condition and level of business activity. Along with our customers we are subject to global political, economic and market conditions, including inflation, interest rates, energy costs, the impact of natural disasters, military action and the threat of terrorism. In particular, we currently derive, and are likely to continue to derive, a significant portion of revenues from customers located in the U.S. Any future decreases in the general level of economic activity, such as decreases in business and consumer spending and increases in unemployment rates, could result in a decrease in demand for our services, thus reducing our revenue. For example, certain customers may decide to reduce or postpone their spending on the services we provide, and we may be forced to lower our prices. Other developments in response to economic events, such as consolidations, restructurings or reorganizations, particularly involving our customers, could also cause the demand for our services to decline, negatively affecting the amount of business that we are able to obtain or retain. We may not be able to predict the impact such conditions will have on the industries we serve and may be unable to plan effectively for or respond to such impact. In response to economic and market conditions, from time to time we have undertaken or may undertake initiatives to reduce our cost structure where appropriate, such as consolidation of resources to provide functional region-wide support to our international subsidiaries in a centralized fashion. These initiatives, as well as any future workforce and facilities reductions we may implement, may not be sufficient to meet current and future changes in economic and market conditions and allow us to continue to achieve the growth rates expected. In addition, costs actually incurred in connection with certain restructuring actions may be higher than our estimates of such costs and/or may not lead to the anticipated cost savings.

In addition, any future disruptions or turbulence in the global credit markets may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers. Such disruptions may limit our ability to access financing, increase the cost of financing needed to meet liquidity needs and affect the ability of our customers to use credit to purchase our services or to make timely payments to us, adversely affecting our financial condition and results of operations.

***Cybersecurity issues, vulnerabilities, and criminal activity resulting in a data or security breach could result in risks to our systems, networks, products, solutions and services resulting in liability or reputational damage.***

We collect and retain large volumes of internal and customer data, including personally identifiable information and other sensitive data both physically and electronically, for business purposes, and our various information technology systems enter, process, summarize and report such data. We also maintain personally identifiable information about our employees. Safeguarding customer, employee and our own data is a key priority for us, and our customers and employees have come to rely on us for the protection of their personal information. Augmented vulnerabilities, threats and more sophisticated and targeted cyber-related attacks pose a risk to our security and the security of our customers, partners, suppliers and third-party service providers, and to the confidentiality, availability

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and integrity of data owned by us or our customers. Despite our efforts to protect sensitive, confidential or personal data or information, we may be vulnerable to material security breaches, theft, misplaced or lost data, programming errors, employee errors and/or malfeasance that could potentially lead to the compromising of sensitive, confidential or personal data or information, improper use of our systems, software solutions or networks, unauthorized access, use, disclosure, modification or destruction of information, defective products, production downtimes and operational disruptions. Despite protective measures, we may not be successful in preventing security breaches which compromise the confidentiality and integrity of this data. While an attempt is made to mitigate these risks by employing a number of measures, including employee training, monitoring and testing, and maintenance of protective systems and contingency plans, we remain vulnerable to such threats.

The sensitive, confidential or personal data or information that we have access to is also subject to privacy and security laws, regulations or customer-imposed controls. The regulatory environment, as well as the requirements imposed on us by the industries we serve governing information, security and privacy laws is increasingly demanding. Maintaining compliance with applicable security and privacy regulations may increase our operating costs and/or adversely impact our ability to provide services to our customers. Furthermore, a compromised data system or the intentional, inadvertent or negligent release or disclosure of data could result in theft, loss, fraudulent or unlawful use of customer, employee or our data which could harm our reputation or result in remedial and other costs, fines or lawsuits. In addition, a cyber-related attack could result in other negative consequences, including damage to our reputation or competitiveness, remediation or increased protection costs, litigation or regulatory action. Fraud, employee negligence, unauthorized access, including, without limitation, malfunctions, viruses and other events beyond our control, may lead to the misappropriation or unauthorized disclosure of sensitive or confidential information we process, store and transmit, including personal information, for our customers, failure to prevent or mitigate data loss or other security breaches, including breaches of our vendors' technology and systems, could expose us or our customers to a risk of loss or misuse of such information, adversely affect our operating results, result in litigation or potential liability for us and otherwise harm our business. As a result, we may be subject to monetary damages, regulatory enforcement actions or fines under federal legislation, such as, the Gramm-Leach-Bliley Act and HIPAA, as well as various states laws. Similarly, regulations such as the Health Information Technology for Economic and Clinical Health Act provisions of the American Recovery and Reinvestment Act of 2009 expand the obligations of "covered entities" and their business associates, including certain mandatory breach notification requirements. In addition to any legal liability, data or security breaches may lead to negative publicity, reputational damage and otherwise adversely affect the results of our operations.

***Our industry may be adversely impacted by a negative public reaction in the U.S. and elsewhere to providing certain of our services from outside the U.S. and recently proposed related legislation.***

We have based our strategy of future growth on certain assumptions regarding our industry and future demand in the market for the provision of business process solutions in part using offshore resources. However, providing services from offshore locations is a politically sensitive topic in the U.S. and elsewhere, and many organizations and public figures have publicly expressed concern about a perceived association between offshore service providers and the loss of jobs in their home countries. In addition, there has been limited publicity about the negative experience of certain companies that provide their services offshore, particularly in India. The trend of providing business process solutions offshore may not continue and could reverse if companies elect to develop and perform their business processes internally or are discouraged from transferring these services to offshore service providers. Any slowdown or reversal of existing industry trends could negatively affect the amount of business that we are able to obtain or retain.

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A variety of U.S. federal and state legislation has been proposed that, if enacted, could restrict or discourage U.S. companies from providing their services from outside the U.S., including recently introduced proposals for providing tax and other economic incentives for companies that create jobs in the U.S. by reducing their reliance on offshore locations. Other state bills have proposed requiring offshore service providers to disclose their geographic locations, requiring notice to individuals whose personal information is disclosed to non-U.S. affiliates or subcontractors, requiring disclosures of companies' foreign outsourcing practices or restricting U.S. private sector companies that have government contracts, grants or guaranteed loan programs from providing their services. Because most of our customers are located in the U.S., any expansion of existing laws or the enactment of new legislation that constrains our ability to provide our solutions from offshore or otherwise makes using our services unappealing or impractical for our customers could have a material and adverse effect on our business, results of operations, financial condition and cash flows.

***The HGM Group has significant influence over us and our corporate governance.***

The HGM Group beneficially owns over 50% of our Common Stock. As long as the HGM Group owns or controls a significant percentage of outstanding voting power, it will have the ability to strongly influence all corporate actions requiring stockholder approval, including the election and removal of directors and the size of our board of directors, any amendment of our certificate of incorporation or bylaws, or the approval of any merger or other significant corporate transaction, including a sale of substantially all of our assets. In addition, pursuant to the terms of the Director Nomination Agreement, the HGM Group (as well as Novitex Holdings) have certain nomination rights with respect to our board of directors and consent rights over certain of our corporate actions.

Additionally, the HGM Group's interests may not align with the interests of our other stockholders. The HGM Group is in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. The HGM Group may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. In addition, our certificate of incorporation provides that we renounce any interest or expectancy in the business opportunities of the HGM Group and that it shall not have any obligation to offer to us those opportunities unless presented to one of our directors or officers in his or her capacity as a director or officer.

***Certain services we provide to customers in our public sector vertical may be subject to additional restrictions or limitations.***

Our engagements with entities in the public sector, including educational institutions, may be subject to compliance with additional legislative or regulatory requirements. Certain state and local governments and agencies have adopted, or may in the future adopt, legislation or rules imposing additional requirements on services provided to the public sector, including restrictions as to where certain services can be performed or where certain data can be stored, even within the U.S. Additionally, our employees who are staffed on certain public sector engagements may be subject to strict background checks or other certifications. These additional requirements may make it more difficult to staff large public sector engagements, require us to turn down new engagements, affect our ability to meet customer expectations, deadlines or other specifications and otherwise increase our costs or decrease our revenues. Further, there can be no assurances that a public sector entity will not face funding shortages or reallocate funding for our services to other priorities, either prior to or after we have begun to perform our services, which could impact whether we are fully compensated for our services and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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***Certain of our contracts are subject to termination rights, audits and/or investigations, which, if exercised, could negatively impact our reputation and reduce our ability to compete for new contracts and have an adverse effect on our business, results of operations and financial condition.***

Many of our customer contracts may be terminated by our customers without cause and without any fee or penalty, with only limited notice. Any failure to meet a customer's expectations, as well as factors beyond our control, including a customer's financial condition, strategic priorities, or mergers and acquisitions, could result in a cancellation or non-renewal of such a contract or a decrease in business provided to us and cause our actual results to differ from our forecasts. We may not be able to replace any customer that elects to terminate or not renew its contract with us, which would reduce our revenues.

In addition, a portion of our revenues is derived from contracts with the U.S. federal and state government and their agencies and from contracts with foreign governments and their agencies. Government entities typically finance projects through appropriated funds. While these projects are often planned and executed as multi-year projects, government entities usually reserve the right to change the scope of or terminate these projects for lack of approved funding and/or at their convenience. Changes in government or political developments, including budget deficits, shortfalls or uncertainties, government spending reductions (e.g., Congressional sequestration of funds under the Budget Control Act of 2016 or during a government shutdown) or other debt or funding constraints, such as those recently experienced in the U.S. and Europe, could result in lower governmental sales and in our projects being reduced in price or scope or terminated altogether, which also could limit our recovery of incurred costs, reimbursable expenses and profits on work completed prior to the termination. The federal procurement environment is unpredictable and this could adversely affect our ability to perform work under new and existing contracts. Also, our government business is subject to the risk that one or more of our potential contracts or contract extensions may be diverted by the contracting agency to a small or disadvantaged or minority-owned business pursuant to set-aside programs administered by the Small Business Administration, or may be bundled into large multiple award contracts for very large businesses. These risks can potentially have an adverse effect on our revenue growth and profit margins.

If the government finds that it inappropriately charged any costs to a contract, the costs are not reimbursable or, if already reimbursed, the cost must be refunded to the government. Additionally, if the government discovers improper or illegal activities or contractual non-compliance (including improper billing), we may be subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with the government. Any resulting penalties or sanctions could materially adversely affect our results of operations and financial condition. Moreover, government contracts are generally subject to audits and investigations by government agencies. Further, the negative publicity that could arise from any such penalties, sanctions or findings in such audits or investigations could have an adverse effect on our reputation in the industry and reduce our ability to compete for new contracts and could materially adversely affect our results of operations and financial condition.

***Our services and facilities may be impacted by terrorism, natural disasters and other disruptions, resulting in an adverse effect on our profitability and financial condition.***

Our ability to provide services may be impacted or disrupted as a result of natural disasters, technical disruptions (including power outage and telecommunications failure), man-made events (including cyber-attacks, war and terrorist attacks), and global health risks or pandemics, as well as the threat or perceived threat of any of these events in the U.S. or any of the locations in which we operate. A significant portion of our employees and key operations centers are located in India and the Philippines, with, particularly in India, limited diversification or redundancy. India and the Philippines

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are particularly susceptible to natural disasters, including typhoons, tsunamis, floods and earthquakes, and the Philippines is additionally susceptible to volcanic eruptions. Our operations in these locations, as well as certain other countries outside of the U.S., are also at greater risk of disruptions in electricity, other public utilities or network services due to substandard infrastructure. Although all of our operations centers have disaster management plans, certain disaster management facilities, particularly in India, may not be adequate to protect against potential disruptions due to natural or other disasters. Damage, destruction or disruptions, including to our MegaCenters, could make it difficult or impossible for employees to reach our business locations or otherwise interrupt our ability to provide our services. Sustained periods of interruption in our services could adversely affect our reputation and relationships with our customers, cause us to incur substantial expenses and expose us to liability. Our insurance coverage may not be sufficient to cover all of our potential losses and our business, results of operation and financial condition could be adversely affected.

Any disruption related to our U.S. data centers or MegaCenters due to any of the foregoing events may cause significant disruptions in our ability to provide our services to our customers and result in a material adverse effect on our reputation, results of operations and financial condition and our business, results of operations and financial condition could be adversely affected.

Although we believe that our insurance coverage with respect to disruptive events is reasonable, significant events such as acts of war and terrorism, economic conditions, judicial decisions, legislation, natural disasters and large losses could materially affect our insurance obligations and future expense.

***Our executives, senior management team and other key personnel are critical to our continued success and the loss of such personnel, or an inability to attract, engage, retain and integrate our executives and other key employees could harm our business.***

Our future success substantially depends on the continued service and performance of our executives, senior management team, as well as other key individuals in senior leadership positions. These personnel possess business and technical capabilities that are difficult to replace. The loss of any of our key personnel, particularly to competitors, may adversely affect our ability to effectively manage our current operations or meet ongoing and future business challenges. Further, identifying, developing internally or hiring externally, training and retraining highly-skilled managerial, technical, sales and services, finance and marketing personnel are critical to our future. Failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations.

***Our business, financial position, and results of operations could be harmed by adverse rating actions by credit rating agencies.***

If the credit ratings of our outstanding indebtedness are downgraded, or if rating agencies indicate that a downgrade may occur, our business, financial position, and results of operations could be adversely affected and perceptions of our financial strength could be damaged. A downgrade would have the effect of increasing our borrowing costs, and could decrease the availability of funds we are able to borrow, adversely affecting our business, financial position, and results of operations. In addition, a downgrade could adversely affect our relationships with our customers.

***Our management team has limited experience managing a public company.***

Most members of our management team have limited experience managing a publicly traded company, interacting with public company investors and complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage the next stages of our transition to being a public company subject to significant regulatory oversight and reporting obligations under the federal securities laws and the scrutiny of securities analysts and

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investors. These new obligations and constituents will require significant attention from our management team and could divert their attention away from the day-to-day management of our business, which could materially adversely affect our business, financial condition and operating results.

***The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.***

As a public company, we are subject to the reporting requirements of the Exchange Act, the listing requirements of the Nasdaq and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources, particularly as we are no longer an emerging growth company. Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and operating results and maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire even more employees in the future, which will increase our costs and expenses.

We are currently evaluating our internal controls, identifying and remediating any deficiencies in those internal controls and documenting the results of our evaluation, testing and remediation. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting that we are unable to remediate before the end of the same fiscal year in which the material weakness is identified, we will be unable to assert that our internal controls are effective. If we are unable to assert that our internal control over financial reporting is effective, or if our auditors are unable to attest to management's report on the effectiveness of our internal controls, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our Common Stock to decline.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expense and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

As a result of being a public company and these new rules and regulations, it is more expensive for us to obtain director and officer liability insurance, and in the future we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

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***Failure to establish and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.***

For purposes of this annual report, we are not required to comply with the rules of the SEC implementing Section 404 of the Sarbanes-Oxley Act and are therefore not required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. As a newly public company, we are required to comply with the SEC's rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which requires management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting. Though we are required to disclose changes made in our internal controls and procedures on a quarterly basis, we are not required to make our first annual assessment of our internal control over financial reporting pursuant to Section 404 until the year following our first annual report required to be filed with the SEC. Our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the year following our first annual report required to be filed with the SEC. At such time, our independent registered public accounting firm, and management, may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating.

To comply with the requirements of being a public company, we have undertaken various actions, and may need to take additional actions, such as implementing new internal controls and procedures and hiring additional accounting staff. Testing and maintaining internal control can divert our management's attention from other matters that are important to the operation of our business. Additionally, when evaluating our internal control over financial reporting, we may identify material weaknesses that we may not be able to remediate in time to meet the applicable deadline imposed upon us for compliance with the requirements of Section 404. If we identify any material weaknesses in our internal control over financial reporting or are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting once we are no longer an emerging growth company, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Common Stock could be materially adversely affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.

***Elevated levels of leverage may harm our financial condition and results of operations.***

As of December 31, 2017, we had approximately $1.276 billion of long-term debt, excluding current maturities. We and our subsidiaries may incur additional indebtedness in the future. Our indebtedness could: decrease our ability to obtain additional financing for working capital, capital expenditures, general corporate or other purposes; limit our flexibility to make acquisitions; increase our cash requirements to support the payment of interest; limit our flexibility in planning for, or reacting to, changes in our business and our industry; and increase our vulnerability to adverse changes in general economic and industry conditions. Our ability to make payments of principal and interest on our indebtedness depends upon our future performance, which will be subject to general economic conditions and financial, business and other factors affecting our consolidated operations, many of which are beyond our control. In addition, if our outstanding senior notes are downgraded to below investment grade, we may incur additional interest expense. If we are unable to generate sufficient cash flow from operations in the future to service our debt and meet our other cash requirements, we may be required, among other things: to seek additional financing in the debt or equity markets; to refinance or restructure all or a portion of our indebtedness; or to reduce or delay planned capital or operating expenditures. Such measures might not be sufficient to enable us to service our debt and

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meet our other cash requirements. In addition, any such financing, refinancing or sale of assets might not be available at all or on economically favorable terms.

***If more stringent labor laws become applicable to us or if a significant number of our employees unionize, our profitability may be adversely affected.***

Increased labor costs due to competition, increased minimum wage or employee benefits costs (including various federal, state and local actions to increase minimum wages), unionization activity or other factors would adversely impact our cost of sales and operating expenses. For example, the State of California has passed regulations which increased minimum wage rates from $10.50 per hour to $11.00 per hour, effective January 1, 2018, and will gradually increase to $15.00 per hour by 2022. In addition, the federal government and a number of other states are evaluating various proposals to increase their respective minimum wage. As minimum wage rates increase, we may need to increase not only the wages of our minimum wage employees but also the wages paid to employees at wage rates that are above minimum wage. As a result, we anticipate that our labor costs will continue to increase.

We are subject to applicable rules and regulations relating to our relationship with our employees, including minimum wage and break requirements, health benefits, unemployment and sales taxes, overtime, and working conditions and immigration status. Legislated increases in the minimum wage and increases in additional labor cost components, such as employee benefit costs, workers' compensation insurance rates, compliance costs and fines, as well as the cost of litigation in connection with these regulations, would increase our labor costs. Unionizing and collective bargaining efforts have received increased attention nationwide in recent periods. While a small number of our employees belong to unions, should our employees become represented by unions, we would be obligated to bargain with those unions with respect to wages, hours, and other terms and conditions of employment, which is likely to increase our labor costs. Moreover, as part of the process of union organizing and collective bargaining, strikes and other work stoppages may occur, which would cause disruption to our business. Similarly, many employers nationally in similar environments have been subject to actions brought by governmental agencies and private individuals under wage-hour laws on a variety of claims, such as improper classification of workers as exempt from overtime pay requirements and failure to pay overtime wages properly, with such actions sometimes brought as class actions. These actions can result in material liabilities and expenses. Should we be subject to employment litigation, such as actions involving wage-hour, overtime, break, and working time, we may distract our management from business matters and result in increased labor costs. If costs of labor increase significantly, our business, results of operations, and financial condition may be adversely affected.

***We may not always offset increased costs with increased fees under long-term contracts.***

The pricing and other terms of our customer contracts, particularly our long-term contact center agreements, are based on estimates and assumptions we make at the time we enter into these contracts. These estimates reflect our best judgments regarding the nature of the engagement and our expected costs to provide the contracted services and could differ from actual results. Not all our larger long-term contracts allow for escalation of fees as our cost of operations increase and those that allow for such escalations do not always allow increases at rates comparable to increases that we experience due to rising minimum wage costs and related payroll cost increases. If we cannot negotiate long-term contract terms that provide for fee adjustments to reflect increases in our cost of service delivery, our business, financial conditions, and results of operation would be materially impacted.

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***Our business process solutions often require long selling cycles and long implementation periods that may result in significant upfront expenses that may not be recovered.***

We often face long selling cycles to secure new contracts for our business process solutions. If we are successful in obtaining an engagement, the selling cycle can be followed by a long implementation period during which we plan our services in detail and demonstrate to the customer our ability to successfully integrate our solutions with the customer's internal operations. Our customers may experience delays in obtaining internal approvals or delays associated with technology or system implementations which can further lengthen the selling cycle or implementation period, and certain engagements may also require a ramping up period after implementation before we can commence providing our services. Even if we succeed in developing a relationship with a potential customer and begin to discuss the services in detail, the potential customer may choose a competitor or decide to retain the work in-house prior to the time a contract is signed. In addition, once a contract is signed, we sometimes do not begin to receive revenue until completion of the implementation period and our solution is fully operational. The extended lengths of our selling cycles and implementation periods can result in the incurrence of significant upfront expenses that may never result in profits or may result in profits only after a significant period of time has elapsed, which may negatively impact our financial performance. For example, we generally hire new employees to provide services in connection with certain large engagements once a new contract is signed. Accordingly, we may incur significant costs associated with these hires before we collect corresponding revenues. Our inability to obtain contractual commitments after a selling cycle, maintain contractual commitments after the implementation period or limit expenses prior to the receipt of corresponding revenue may have a material adverse effect on our business, results of operations and financial condition.

***We face significant competition from U.S.-based and non-U.S.-based companies and from our customers who may elect to perform their business processes in-house.***

Our industry is highly competitive, fragmented and subject to rapid change. We compete primarily against large multi-national information technology companies, focused BPO companies based in offshore locations, BPO divisions of information technology companies located in India, other BPO and consulting providers that focus on the legal sector and the in-house capabilities of our customers and potential customers. These competitors may include entrants from adjacent industries or entrants in geographic locations with lower costs than those in which we operate.

We believe that the principal competitive factors in our markets are breadth and depth of process expertise, knowledge of industries served, service quality, scalability of solutions, the ability to attract, train and retain qualified people, compliance rigor, global delivery capabilities, outcome-based pricing and sales and customer management capabilities. Some of our competitors have greater financial, marketing, technological or other resources, larger customer bases and more established reputations or brand awareness than we do. In addition, some of our competitors who do not have, or have limited, global delivery capabilities may expand their delivery centers to the countries in which we operate or increase our capacity in lower cost geographies, which could result in increased competition. Some of our competitors may also enter into strategic or commercial relationships among themselves or with larger, more established companies in order to benefit from increased scale and enhanced scope capabilities or enter into similar arrangements with potential customers. Further, we expect competition to intensify in the future as more companies enter our markets and customers consolidate the services they require among fewer vendors. Increased competition, our inability to compete successfully against competitors, pricing pressures or loss of market share could result in reduced operating margins, which could adversely affect our business, results of operations and financial condition.

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***Our industry is characterized by rapid technological change and failure to compete successfully within the industry and address rapid technological change could adversely affect our results of operations and financial condition.***

The process of developing new services and solutions is inherently complex and uncertain. It requires accurate anticipation of customers' changing needs and emerging technological trends. We must make long-term investments and commit significant resources before knowing whether these investments will eventually result in services that achieve customer acceptance and generate the revenues required to provide desired returns. If we fail to accurately anticipate and meet our customers' needs through the development of new technologies and service offerings or if our new services are not widely accepted, we could lose market share and customers to our competitors and that could materially adversely affect our results of operations and financial condition.

More specifically, the business process solutions industry is characterized by rapid technological change, evolving industry standards and changing customer preferences. The success of our business depends, in part, upon our ability to develop technology and solutions that keep pace with changes in our industry and the industries of our customers. Although we have made, and will continue to make, significant investments in the research, design and development of new technology and platforms-driven solutions, we may not be successful in addressing these changes on a timely basis or in marketing the changes we implement. In addition, products or technologies developed by others may render our services uncompetitive or obsolete. Failure to address these developments could have a material adverse effect on our business, results of operations and financial condition.

In addition, existing and potential customers are actively shifting their businesses away from paper-based environments to electronic environments with reduced needs for physical document management and processing. This shift may result in decreased demand for the physical document management services we provide such that our business and revenues may become more reliant on technology-based services in electronic environments, which are typically provided at lower prices compared to physical document management services. Though we have solutions for customers seeking to make these types of transitions, a significant shift by our customers away from physical documents to non-paper based technologies, whether now existing or developed in the future, could adversely affect our business, results of operation and financial condition.

Also, some of the large international companies in the industry have significant financial resources and compete with us to provide document processing services and/or business process services. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, distribution and customer service and support. Our success in future performance is largely dependent upon our ability to compete successfully, to promptly and effectively react to changing technologies and customer expectations and to expand into additional market segments. To remain competitive, we must develop services and applications; periodically enhance our existing offerings; remain cost efficient; and attract and retain key personnel and management. If we are unable to compete successfully, we could lose market share and important customers to our competitors and that could materially adversely affect our results of operations and financial condition.

***We rely, in some cases, on third-party hardware and software, which could cause errors or failures of our services and could also result in adverse effects for our business and reputation if these third-party services fail to perform properly or are no longer available.***

Although we developed our platform-driven solutions internally, we rely, in some cases, on third-party hardware and software in connection with our service offerings which we either purchase or lease from third-party vendors. We are generally able to select from a number of competing hardware and software applications, but the complexity and unique specifications of the hardware or software makes design defects and software errors difficult to detect. Any errors or defects in third-party hardware or

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software incorporated into our service offerings, may result in a delay or loss of revenue, diversion of resources, damage to our reputation, the loss of the affected customer, loss of future business, increased service costs or potential litigation claims against us.

Further, this hardware and software may not continue to be available on commercially reasonable terms or at all. Any loss of the right to use any of this hardware or software could result in delays in the provisioning of our services, which could negatively affect our business until equivalent technology is either developed by us or, if available, is identified, obtained and integrated. In addition, it is possible that our hardware vendors or the licensors of third-party software could increase the prices they charge, which could have a material adverse impact on our results of operations. Further, changing hardware vendors or software licensors could detract from management's ability to focus on the ongoing operations of our business or could cause delays in the operations of our business.

***Some of the work we do involves greater risks than other types of claims processing or document management engagements.***

We provide certain business process solutions for customers that, for financial, legal or other reasons, may present higher risks compared to other types of claims processing or document management engagements. Examples of higher risk engagements include, but are not limited to:

- class action and other legal distributions involving significant sums of money;
- economic analysis and expert testimony in high stakes legal matters; and
- engagements where we receive or process sensitive data, including personal consumer or private health information.

While we attempt to identify higher risk engagements and customers and mitigate our exposure by taking certain preventive measures and, where necessary, turning down certain engagements, these efforts may be ineffective and an actual or alleged error or omission on our part, the part of our customer or other third parties or possible fraudulent activity in one or more of these higher-risk engagements could result in the diversion of management resources, damage to our reputation, increased service costs or impaired market acceptance of our services, any of which could negatively impact our business and our financial condition.

***We encounter professional conflicts of interest.***

We encounter professional conflicts of interest, particularly in our provision of expert witness testimony in certain of our legal engagement services. Although we have systems and procedures to identify potential conflicts of interest prior to accepting a new engagement, there is no guarantee that all potential conflicts of interest will be identified, and undetected conflicts may result in damage to our reputation and result in professional liability, which may adversely impact our business and results of operations. If we are unable to accept new engagements for any reason, including business and legal conflicts, our professionals may become underutilized or discontented, which may adversely affect our future revenues and results of operations, as well as our ability to retain these professionals.

***New, more stringent privacy and data security regulations may have a negative impact on our business.***

Any inability to adequately address privacy and security concerns could result in expenses and liability, and adverse impact on us. Every country in which we provide services has established its own data security and privacy legal framework and in many jurisdictions, enforcement actions and consequences for noncompliance are also rising (e.g., in Europe, the Data Protection Directive, with each country enacting data protection legislation in accordance with European Union guidelines). Some of these countries, such as Canada, limit the transfer of information of their residents outside of the country, which may impact the way we provide services in those locations. Other countries, such as

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China, limit the kind of information that may be processed inside the country. Personal privacy and data security are increasingly the focus of expanded regulation in Europe, and many other jurisdictions where we provide services to our customers.

Industry groups impose self-regulatory standards that bind us by their incorporation into the contracts we execute. For example, should we fail to be compliant with the PCIDSS we may be subject to fines and other penalties.

***Our business could be materially and adversely affected if we do not protect our intellectual property or if our services are found to infringe on the intellectual property of others.***

Our success depends in part on certain methodologies and practices we utilize in developing and implementing applications and other proprietary intellectual property rights. In order to protect such rights, we rely upon a combination of nondisclosure and other contractual arrangements, as well as trade secret, copyright, trademark and patent laws. We also generally enter into confidentiality agreements with our employees, customers and potential customers and limit access to and distribution of our proprietary information. There can be no assurance that the laws, rules, regulations and treaties in effect in the U.S., India and the other jurisdictions in which we operate and the contractual and other protective measures we take are adequate to protect us from misappropriation or unauthorized use of our intellectual property, or that such laws will not change. There can be no assurance that the resources invested by us to protect our intellectual property will be sufficient or that our intellectual property portfolio will adequately deter misappropriation or improper use of our technology, and our intellectual property rights may not prevent competitors from independently developing or selling products and services similar to or duplicative of ours. We may not be able to detect unauthorized use and take appropriate steps to enforce our rights, and any such steps may be costly and unsuccessful. Infringement by others of our intellectual property, including the costs of enforcing our intellectual property rights, may have a material adverse effect on our business, results of operations and financial condition. We could also face competition in some countries where we have not invested in an intellectual property portfolio. If we are not able to protect our intellectual property, the value of our brand and other intangible assets may be diminished, and our business may be adversely affected. Further, although we believe that we are not infringing on the intellectual property rights of others, claims may nonetheless be successfully asserted against us in the future, and we may be the target of enforcement of patents by third parties, including aggressive and opportunistic enforcement claims by non-practicing entities. Regardless of the merit of such claims, responding to infringement claims can be expensive and time-consuming. If we are found to infringe any third-party rights, we could be required to pay substantial damages or we could be enjoined from offering some of our products and services. The costs of defending any such claims could be significant, and any successful claim may require us to modify our services. The value of, or our ability to use, our intellectual property may also be negatively impacted by dependencies on third parties, such as our ability to obtain or renew on reasonable terms licenses that we need in the future, or our ability to secure or retain ownership or rights to use data in certain software analytics or services offerings. Any such circumstances may have a material adverse effect on our business, results of operations and financial condition.

***We generate a significant portion of our revenues from a small number of customers, and any loss of business from these customers could materially reduce our revenues.***

We have derived, and believe that in the foreseeable future we will continue to derive, a significant portion of our revenues from a small number of customers. While we have no one customer that accounts for more than 10% of our revenue, for each of the years ended December 31, 2017 and 2016, our ten largest customers accounted for less than 30% of our revenues.

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Our ability to maintain close relationships with these and other major customers is essential to the growth and profitability of our business. However, the volume of work performed for a specific customer is likely to vary from year to year. A major customer in one year may not provide the same level of revenues for us in any subsequent year and there can be no assurance that any customer will extend or renew its contract with us. The business process solutions we provide to our customers, and the revenues and net income from those services, may decline or vary as the type and quantity of services we provide change over time. Furthermore, our reliance on any individual customer for a significant portion of our revenues may give that customer a certain degree of pricing leverage against us when negotiating contracts and terms of service.

In addition, a number of factors other than our performance could cause the loss of or reduction in business or revenues from a customer, and these factors are not predictable. For example, a customer may decide to reduce spending on business process solutions from us due to a challenging economic environment or other factors, both internal and external, relating to our business. These factors may include corporate restructuring, pricing pressure, changes to our outsourcing strategy, switching to another BPO provider or returning work in-house or other changes in a customer's prospects or profitability. The loss of any of our major customers, or a significant decrease in the volume of work they give to us or the price at which we are able to provide our services to them, could materially adversely affect our revenues and thus our results of operations.

***Our revenues are highly dependent on a limited number of industries, and any decrease in demand for business process solutions in these industries could reduce our revenues and adversely affect the results of operations.***

A substantial portion of our revenues are derived from three specific industry-based segments: ITPS, HS, and LLPS. Customers in ITPS accounted for 71.8% and 55.7% of our revenues in 2017 and 2016, respectively. Customers in HS accounted for 20.3% and 31.4% of our revenues in 2017 and 2016, respectively. Customers in LLPS accounted for 7.9% and 12.9% of our revenues in 2017 and 2016, respectively.

Our success largely depends on continued demand for our services from customers in these segments, and a downturn or reversal of the demand for business process solutions in any of these segments, or the introduction of regulations that restrict or discourage companies from engaging our services, could materially adversely affect our business, financial condition and results of operations. For example, consolidation in any of these industries or combinations or mergers, particularly involving our customers, may decrease the potential number of customers for our services. We have been affected by the worsening of economic conditions and significant consolidation in the financial services industry, and continuation of this trend may negatively affect our revenues and profitability.

***Our future profitability and ability to sustain positive cash flow is uncertain.***

Our future profitability depends on, among other things, our ability to generate revenue in excess of our expenses. However, we have significant and continuing fixed costs relating to the maintenance of our assets and business, including debt service requirements, which we may not be able to reduce adequately to sustain our profitability if our revenue decreases. Our profitability also may be impacted by non-cash charges such as stock-based compensation charges and potential impairment of goodwill, which will negatively affect our reported financial results. Even if we achieve profitability on an annual basis, we may not be able to achieve profitability on a quarterly basis. You should not consider prior revenue growth as indicative of our future performance. In fact, in future quarters, we may not have any revenue growth or our revenue could decline. We may incur significant losses in the future for a number of reasons and risks described elsewhere herein and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown events.

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Our ability to continue to generate positive cash flow depends on our ability to generate collections from sales in excess of our cash expenditures. Our ability to generate and collect on sales can be negatively affected by many factors, including but not limited to our inability to convince new customers to use our services or existing customers to renew their contracts or use additional services; the lengthening of our sales cycles and implementation periods; changes in our customer mix; a decision by any of our existing customers to cease or reduce using our services; failure of customers to pay our invoices on a timely basis or at all; a failure in the performance of our solutions or internal controls that adversely affects our reputation or results in loss of business; the loss of market share to existing or new competitors; the failure to enter or succeed in new markets; regional or global economic conditions or regulations affecting perceived need for or value of our services; or our inability to develop new offerings, expand our offerings or drive adoption of our new offerings on a timely basis and thus potentially not meeting evolving market needs.

We anticipate that we will incur increased sales and marketing and general and administrative expenses as we continue to diversify our business into new industries and geographic markets. Our business will also require significant amounts of working capital to support our growth. We may not achieve collections from sales to offset these anticipated expenditures sufficient to maintain positive future cash flow. In addition, we may encounter unforeseen expenses, difficulties, complications, delays and other unknown events that cause our costs to exceed our expectations. An inability to generate positive cash flow may decrease our long-term viability.

***We have a significant amount of intangible assets that could be materially impacted.***

Goodwill and other intangible assets that have indefinite useful lives are not amortized but rather are evaluated annually for impairment and more frequently if a triggering event occurs. The valuation of goodwill for impairment involves a high degree of judgment. Based on our estimates and assumptions underlying the valuation, impairment is determined by estimating the fair value of a reporting unit and comparing that value to the reporting unit's book value. If economic events occur that cause us to revise our estimates and assumptions used in determining the fair value of our goodwill, such revisions could result in an impairment charge that could have a material adverse impact on our financial statements during the period incurred.

***We derive significant revenue and profit from commercial and government contracts awarded through competitive bidding processes, including renewals, which can impose substantial costs on us, and we will not achieve revenue and profit objectives if we fail to accurately and effectively bid on such projects.***

Many of these contracts are extremely complex and require the investment of significant resources in order to prepare accurate bids and proposals. Competitive bidding imposes substantial costs and presents a number of risks, including: (i) the substantial cost and managerial time and effort that we spend to prepare bids and proposals for contracts that may or may not be awarded to us; (ii) the need to estimate accurately the resources and costs that will be required to implement and service any contracts we are awarded, sometimes in advance of the final determination of their full scope and design; (iii) the expense and delay that may arise if our competitors protest or challenge awards made to us pursuant to competitive bidding and the risk that such protests or challenges could result in the requirement to resubmit bids and in the termination, reduction or modification of the awarded contracts; and (iv) the opportunity cost of not bidding on and winning other contracts we might otherwise pursue. If our competitors protest or challenge an award made to us on a government contract, the costs to defend such an award may be significant and could involve subsequent litigation that could take years to resolve.

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***Our profitability is dependent upon our ability to obtain adequate pricing for our services and to improve our cost structure.***

Our success depends on our ability to obtain adequate pricing for our services. Depending on competitive market factors, future prices we obtain for our services may decline from previous levels. If we are unable to obtain adequate pricing for our services, it could materially adversely affect our results of operations and financial condition. In addition, our contracts are increasingly requiring tighter timelines for implementation as well as more stringent service level metrics. This makes the bidding process for new contracts much more difficult and requires us to adequately consider these requirements in the pricing of our services.

We regularly review our operations with a view towards reducing our cost structure, including, without limitation, reducing our employee base, exiting certain businesses, improving process and system efficiencies and outsourcing some internal functions. We, from time to time, engage in restructuring actions to reduce our cost structure. If we are unable to continue to maintain our cost base at or below the current level and maintain process and systems changes resulting from prior restructuring actions or to realize the expected cost reductions in the ongoing strategic transformation program, it could materially adversely affect our results of operations and financial condition.

In addition, in order to meet the service requirements of our customers, which often includes 24/7 service, and to optimize our employee cost base, including our back-office support, we often locate our delivery service and back-office support centers in lower-cost locations, including several developing countries. Concentrating our centers in these locations presents a number of operational risks, many of which are beyond our control, including the risks of political instability, natural disasters, safety and security risks, labor disruptions, excessive employee turnover and rising labor rates. Additionally, a change in the political environment in the U.S. or the adoption and enforcement of legislation and regulations curbing the use of such centers outside of the U.S. could materially adversely affect our results of operations and financial condition. These risks could impair our ability to effectively provide services to our customers and keep our costs aligned to our associated revenues and market requirements.

Our ability to sustain and improve profit margins is dependent on a number of factors, including our ability to continue to improve the cost efficiency of our operations through such programs as robotic process automation, to absorb the level of pricing pressures on our services through cost improvements and to successfully complete information technology initiatives. If any of these factors adversely materialize or if we are unable to achieve and maintain productivity improvements through restructuring actions or information technology initiatives, our ability to offset labor cost inflation and competitive price pressures would be impaired, each of which could materially adversely affect our results of operations and financial condition.

***We are subject to regular customer and third-party security reviews and failure to pass these may have an adverse impact on our operations.***

Many of our customer contracts require that we maintain certain physical and/or information security standards, and, in certain cases, we permit a customer to audit our compliance with these contractual standards. Any failure to meet such standards or pass such audits may have a material adverse impact on our business. Further, customers from time to time may require stricter physical and/or information security than they negotiated in their contracts, and may condition continued volumes and business on the satisfaction of such additional requirements. Some of these requirements may be expensive to implement or maintain, and may not be factored into our contract pricing. Further, on an annual basis we obtain third-party audits of certain of our locations in accordance with Statement on Standards for Attestation Engagements No. 16 (SSAE 16) put forth by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA). SSAE 16 is the current standard for reporting on controls at service organizations, and many of our customers

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expect that we will perform an annual SSAE 16 audit, and report to them the results. Negative findings in such an audit and/or the failure to adequately remediate in a timely fashion such negative findings may cause customers to terminate their contracts or otherwise have a material adverse effect on our reputation, results of operation and financial condition.

***Failure to adhere to the regulations that govern our business could have an adverse impact on our operations.***

Our customers are often subject to regulations that may require that we comply with certain rules and regulations in performing services for them that would not otherwise apply to us. U.S. federal laws and regulations that apply to certain portions of our business include the Gramm-Leach-Bliley Act, HIPAA, and the HITECH Act of 2009. We must also comply with applicable regulations relating to healthcare and other personal information that we processes as part of our services. Due to our global delivery model, we are also subject to the burden and expense of complying with the laws and regulations of various jurisdictions and changes thereto which are beyond our control. In addition, our contracts with some of our customers require us to remain knowledgeable about and comply with a number of additional relevant consumer protection laws and other regulatory requirements. Failure to perform our services in a manner that complies with any such requirement could result in breaches of contracts with our customers. Our failure to comply with any applicable laws and regulations could subject us to civil fines and criminal penalties.

***A significant portion of our assets and operations are located in India, the Philippines, China and Mexico, and we are subject to regulatory, economic and political uncertainties in those locations.***

A significant number of our operations centers are located in India, the Philippines and China and a majority of our assets and our professionals are located in those locations. We intend to continue to develop and expand our facilities in these areas. Our financial performance may be adversely affected by general economic conditions and economic and fiscal policy in these countries, including changes in exchange rates and controls, interest rates and taxation policies, as well as social stability and political, economic or diplomatic developments affecting those countries in the future. These countries have experienced significant economic growth over the last several years, but face major challenges in sustaining that growth in the years ahead. These challenges include the need for substantial infrastructure development and improving access to healthcare and education. Our ability to recruit, train and retain qualified employees, develop and operate our operations centers, and attract and retain customers could be adversely affected if these countries do not successfully meet these challenges.

In the early 1990s, India experienced significant inflation, low growth in gross domestic product and shortages of foreign currency reserves. The Indian government, however, has exercised and continues to exercise significant influence over many aspects of the Indian economy. India's government has provided significant tax incentives and relaxed certain regulatory restrictions in order to encourage foreign investment in specified sectors of the economy, including the BPO industry. Certain of those programs that have benefited us include tax holidays, liberalized import and export duties and preferential rules on foreign investment and repatriation. We cannot assure you that liberalization policies will continue. Various factors, such as changes in the current federal government, could trigger significant changes in India's economic liberalization and deregulation policies and disrupt business and economic conditions in India generally and our business in particular.

The Philippines has experienced significant inflation, currency declines and shortages of foreign exchange. In addition, the Philippines has experienced and may continue to experience civil unrest, terrorism and political turmoil, resulting in temporary work stoppages and technology outages. These instabilities and any adverse changes in the political environment in the Philippines could increase our operational costs, increase our exposure to legal and business risks and make it more difficult for us to operate our business in the Philippines.

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Our business operations in China may be adversely affected by our current and future political environment. The Chinese government can exert substantial influence and control over the manner in which companies in China conduct business. Under the current government leadership, the government of China has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of China will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

Our ability to efficiently conduct our business activities in Mexico is subject to changes in government policy or shifts in political attitudes that are beyond our control. Government policy may change to discourage foreign investment, nationalization of industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. In addition, Mexico may experience political instability, which may result in outbreaks of civil unrest, drug-related violence, terrorist attacks or threats or acts of war in the affected areas, any of which could materially and adversely affect our business, prospects, financial condition and results of operations.

***Introduction of tax legislation and disputes with tax authorities may have an adverse effect on our operations and our overall tax rate.***

Governments in countries in which we operate or provide services could enact new tax legislation that could have a material adverse effect on our overall effective tax rate. In addition, our ability to repatriate surplus earnings, if any, from our operations centers in a tax-efficient manner is dependent upon interpretations of local laws, possible changes in such laws and the renegotiation of existing double tax avoidance treaties. Changes to any of these may adversely affect our overall tax rate, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, the transfer pricing regulations of the U.S. and certain foreign jurisdictions, including India, require that any cross-border transaction involving related parties be at an arm's-length price. Accordingly, we base our pricing between our foreign subsidiaries and related parties on a functional and economic analysis involving benchmarking against transactions among entities that are not related. However, the tax authorities have jurisdiction to review our transfer-pricing policy. If they conclude the policy was not applied appropriately, we may incur additional tax liability, including accrued interest and penalties. As an example, we have previously received an adverse order from the Indian Tax Tribunal over the application of some of our transfer pricing policies. This decision may be overturned only by appeal to India's Supreme Court. However, it is highly uncertain the matter would ultimately be decided in our favor. Based on the adverse Indian tax tribunal's decision, advice from tax advisors, and the noted trend of Indian tax authorities aggressively pursuing higher transfer prices from multi-national companies, we believe it is probable that we may experience future assessments of tax, penalty and interest in connection with our Indian transfer-pricing policy. Accordingly, reserves have been established on our balance sheet. However, these reserves may not be sufficient. As we continue to expand our operations, we may be subject to similar liability/exposure in additional geographies/jurisdictions.

***We may have increases in tax expenses and uncertain future tax liabilities due to enactment of the Tax Cuts and Jobs Act.***

On December 22, 2017, new U.S. federal income tax legislation was enacted (the "Tax Cuts and Jobs Act" or "TCJA") that made significant changes to U.S. tax law, generally effective for tax years beginning after December 31, 2017. Among other changes, the TCJA reduces the U.S. corporate income tax rate to 21 percent from a maximum rate of 35 percent; implements a new system of taxation for non-U.S. earnings, including by imposing a one-time tax on the deemed repatriation of undistributed earnings of non-U.S. subsidiaries, permitting deductions for certain dividends from non-U.S. subsidiaries and expanding income inclusions from controlled foreign corporations; imposes

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significant additional limitations on the deductibility of interest; and allows for the expensing of certain capital expenditures. In the absence of guidance on various ambiguities in the application of certain provisions of the TCJA, we will use what we believe are reasonable interpretations and assumptions in applying the TCJA. It is possible, however, that the U.S. Internal Revenue Service will issue subsequent guidance or take positions on audit that differ from our prior interpretations and assumptions, which could have a material adverse effect on our cash tax liabilities, results of operations, and financial condition.

***Sales tax laws in the U.S. may change resulting in service providers having to collect sales taxes in states where the current laws do not require us to do so. This could result in substantial tax liabilities.***

Our U.S. subsidiaries collect and remit sales tax in states in which the subsidiaries have physical presence or in which we believe sufficient nexus exists which obligates us to collect sales tax. Other states may, from time to time, claim that we have state-related activities constituting physical nexus to require such collection. Additionally, many other states seek to impose sales tax collection or reporting obligations on companies that sell goods to customers in their state, or directly to the state and its political subdivisions, regardless of physical presence. Such efforts by states have increased recently, as states seek to raise revenues without increasing the income tax burden on residents. We rely on U.S. Supreme Court decisions which hold that, without Congressional authority, a state may not enforce a sales tax collection obligation on a company that has no physical presence in the state. We cannot predict whether the nature or level of contacts we have with a particular state will be deemed enough to require us to collect sales tax in that state nor can we be assured that Congress or individual states will not approve legislation authorizing states to impose tax collection or reporting obligations on our activities. A successful assertion by one or more states that we should collect sales tax could result in substantial tax liabilities related to past sales and would result in considerable administrative burdens and costs for us.

***Restrictions on entry visas may affect our ability to compete for and provide services to customers in the U.S., which could have a material adverse effect on future revenues.***

A significant number of our employees are foreign nationals, including from India, the Philippines and China. Certain members of our development team based in India travel to the U.S. on a regular basis to facilitate new project development, including the implementation of new contracts and to meet our U.S. customers. The ability of these employees to travel to the U.S. and other countries in which we do business depends on the ability to obtain the necessary visas and entry permits.

In response to political forces, terrorist attacks, the global economic downturn, public sentiments of high unemployment rates in certain parts of the U.S. and other events, U.S. immigration authorities have increased the level of scrutiny in granting visas and applicable immigration laws may be subject to legislative change and varying standards of application and enforcement. We cannot predict the political or economic events that could affect immigration laws or any restrictive impact those events could have on obtaining or monitoring entry visas for our professionals.

***Investors may have difficulty effecting service of process or enforcing judgments obtained in the U.S. against our non-U.S. subsidiaries.***

We have significant operating subsidiaries that are organized outside the U.S. A portion of our assets are located in India, the Philippines, China, Mexico, and Canada. As a result, you may be unable to effect service of process upon our affiliates who reside in these jurisdictions. In addition, you may be unable to enforce against these persons outside the jurisdiction of their residence judgments obtained in U.S. courts, including judgments predicated solely upon U.S. federal securities laws.

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***Currency fluctuations among the Euro, British Pound, Indian rupee, the Philippine Peso, the Mexican Peso, the Canadian Dollar, the Chinese Yuan and the U.S. Dollar could have a material adverse effect on our results of operations.***

We operate internationally and as a result, are subject to risks associated with doing business globally, such as risks related to the differing legal, political and regulatory requirements and economic conditions of many jurisdictions. Risks inherent to operating internationally include changes in a country's economic or political conditions, in foreign currency exchange rates, regulatory requirements and enforcement of intellectual property rights.

The functional currencies of our businesses outside of the U.S. are the local currencies. Changes in exchange rates between these foreign currencies and the U.S. Dollar will affect the recorded levels of our assets, liabilities, net sales, cost of goods sold and operating margins and could result in exchange gains or losses. The primary foreign currencies to which we have exposure are the European Union Euro, Swedish Krona, British Pound Sterling, Canadian Dollar and Indian rupees. Exchange rates between these currencies and the U.S. Dollar in recent years have fluctuated significantly and may do so in the future. Our operating results and profitability may be affected by any volatility in currency exchange rates and our ability to manage effectively currency transaction and translation risks. To the extent the U.S. Dollar strengthens against foreign currencies, our foreign revenues and profits will be reduced when translated into U.S. Dollars.

Although the vast majority of our revenues are denominated in U.S. dollars, a significant portion of our expenses are incurred and paid in Euros, British Pound Sterling, Swedish Krona, Indian rupees, and to a lesser extent in other currencies, including the Philippine Peso, the Mexican Peso, the Canadian dollar and the Chinese Yuan. We report our financial results in U.S. Dollars. The exchange rate between the Indian rupee and the U.S. Dollar has changed substantially in recent years and may fluctuate substantially in the future. Our results of operations may be adversely affected if such fluctuations continue, or increase, or other currencies fluctuate significantly against the U.S. Dollar.

Although we do not currently take steps to hedge our foreign currency exposures, should we choose in the future to implement a hedging strategy, there can be no assurance that our hedging strategy will be successful or that the hedging markets would have sufficient liquidity or depth to allow us to implement such a hedging strategy in a cost-effective manner. Further, the success of any potential hedging strategy could be impacted by any failure by the hedging counterparties to meet their contractual obligations.

***Failure to comply with the U.S. Foreign Corrupt Practices Act, or the FCPA, economic and trade sanctions, regulations, and similar laws could subject us to penalties and other adverse consequences.***

We operate our business in several foreign countries with developing economies, where companies often engage in business practices that are prohibited by U.S. and other regulations applicable to us. We are subject to anti-corruption laws and regulations, including the FCPA, the U.K. Bribery Act and other laws that prohibit the making or offering of improper payments to foreign government officials and political figures, including antibribery provisions enforced by the Department of Justice and accounting provisions enforced by the SEC. These laws prohibit improper payments or offers of payments to foreign governments and their officials and political parties by the U.S. and other business entities for the purpose of obtaining or retaining business. We have implemented policies to identify and address potentially impermissible transactions under such laws and regulations; however, there can be no assurance that all of our and our subsidiaries' employees, consultants, and agents, including those that may be based in or from countries where practices that violate U.S. or other laws may be customary, will not take actions in violation of our policies, for which we may be ultimately responsible.

We are also subject to certain economic and trade sanctions programs that are administered by the Department of Treasury's Office of Foreign Assets Control, or OFAC, which prohibit or restrict transactions to or from or dealings with specified countries, their governments, and in certain

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circumstances, their nationals, and with individuals and entities that are specially-designated nationals of those countries, narcotics traffickers, and terrorists or terrorist organizations. Our subsidiaries may be subject to additional foreign or local sanctions requirements in other relevant jurisdictions.

***Fluctuations in the costs of paper, ink, energy, by-products and other raw materials may adversely impact the results of our operations.***

Purchases of paper, ink, energy and other raw materials represent a large portion of our costs. Increases in the costs of these inputs may increase our costs and we may not be able to pass these costs on to customers through higher prices. In addition, we may not be able to resell waste paper and other print-related by-products or may be adversely impacted by decreases in the prices for these by-products. Increases in the cost of materials may adversely impact customers' demand for our printing and printing-related services.

***We may be required to take write downs or write-offs, restructuring and impairment or other charges that could have a significant negative effect on our financial condition, results of operations and stock price, which could cause you to lose some or all of your investment.***

Although we conducted due diligence before the consummation of the Business Combination with respect to SourceHOV and Novitex, we cannot assure you that this diligence revealed all material issues that may be present in our current businesses, that it would be possible to uncover all material issues through a customary amount of due diligence, or that factors outside of our control will not later arise. As a result, we may be forced to write down or write off assets, restructure our operations, or incur impairment or other charges that could result in losses. Unexpected risks may arise and previously known risks may materialize in a manner not consistent with our risk analysis with respect to the Business Combination. Even though these charges may be non-cash items and may not have an immediate impact on our liquidity, the fact that we report charges of this nature could contribute to negative market perceptions about us or our securities, including, without limitation, our Common Stock.

***The market for our securities remains volatile and may not continue, which would adversely affect the liquidity and price of our securities.***

The price of our securities, including, without limitation, our Common Stock, may continue to fluctuate significantly due to the market's reaction to the Business Combination and general market and economic conditions. An active trading market for our securities following the Business Combination may not further develop or be sustained. In addition, the price of our securities can fluctuate due to general economic conditions and forecasts, our general business condition and the release of our financial reports. Additionally, if our Common Stock become delisted from Nasdaq (as has already occurred with our publicly traded warrants and units, which consist of one share of Common Stock and one warrant) for any reason, and are quoted on the OTC Bulletin Board, an inter-dealer automated quotation system for equity securities that is not a national securities exchange, the liquidity and price of our securities may be more limited than if they were quoted or listed on Nasdaq or another national securities exchange.

***Changes in laws or regulations, or a failure to comply with any laws and regulations, may adversely affect our business, investments and results of operations.***

We are subject to laws, regulations and rules enacted by national, regional and local governments and Nasdaq. In particular, we are required to comply with certain SEC, Nasdaq and other legal or regulatory requirements. Compliance with, and monitoring of, applicable laws, regulations and rules may be difficult, time consuming and costly. Those laws, regulations and rules and their interpretation and application may also change from time to time and those changes could have a material adverse effect on our business, investments and results of operations. In addition, a failure to comply with applicable laws, regulations and rules, as interpreted and applied, could have a material adverse effect on our business and results of operations.

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## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

We lease and own numerous facilities worldwide with larger concentrations of space in Texas, Michigan, Connecticut, California, India, Mexico, the Philippines, and China. The size of our active property portfolio as of December 31, 2017 was approximately 4.0 million square feet (square feet) and comprised 159 leased properties and 8 owned properties.

Our owned and leased facilities house general offices, sales offices, service locations, and production facilities. Many of our operating facilities are equipped with fiber connectivity and have access to other power sources. Substantially all of our operations facilities are leased under long-term leases with varying expiration dates, except for the following owned locations: (i) three operations facilities in India with a combined building area of approximately 91,500 sq. ft., respectively, (ii) an operating facility in Georgiana, Alabama with an approximate building area of 20,000 sq. ft., (iii) an operating facility in Tallahassee, Florida consisting of four buildings with a combined building area of approximately 21,000 sq. ft., (iv) an operating facility in Upper Marlboro, Maryland with an approximate building area of 30,000 sq. ft., (v) an operating facility in Troy, Michigan that will serve as the Company's primary data center with an approximate building area of 66,000 sq. ft. and (vi) an operating facility in Egham, England with an approximate building area of 11,000 sq. ft. We also maintain an operating presence at approximately 1,100 customer sites.

Our properties are suitable to deliver services to our customers for each of our business segments. Our management believes that all of our properties and facilities are well maintained.

## ITEM 3. LEGAL PROCEEDINGS

*Appraisal Demand*

On September 21, 2017, former stockholders of SourceHOV, who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the Business Combination, which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their shares at the time of the Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). The parties have commenced discovery. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate any loss or range of loss that may arise from the Appraisal Action. Pursuant to the terms of the Business Combination Agreement, if such appraisal rights are perfected, a corresponding portion of shares of our Common Stock issued to Ex-Sigma 2 LLC, our principal stockholder, will be forfeited at such time as the PIPE Financing (as defined in the Consent, Waiver and Amendment dated June 15, 2017) is repaid. The Company intends to vigorously defend against the Appraisal Action.

*Other*

We are, from time to time, involved in other legal proceedings, inquiries, claims and disputes, which arise in the ordinary course of business. Although our management cannot predict the outcomes of these matters, our management believes these actions will not have a material, adverse effect on our financial position, results of operations or cash flows.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

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## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

**Market Information**

Our Common Stock is traded on the Nasdaq composite under the symbol "XELA." Set forth below is the high and low sales price of our Common Stock during the periods presented.

| | Sales Price | |
|---|---|---|
| | High | Low |
| **Year Ended December 31, 2017** | | |
| Fourth Quarter | $ 6.10 | $ 4.37 |
| Third Quarter(1) | $ 10.00 | $ 4.40 |
| Second Quarter | $ 10.03 | $ 7.66 |
| First Quarter | $ 10.15 | $ 9.93 |
| **Year Ended December 31, 2016** | | |
| Fourth Quarter | $ 9.98 | $ 9.90 |
| Third Quarter | $ 10.24 | $ 9.85 |
| Second Quarter | $ 9.95 | $ 9.75 |
| First Quarter | $ 9.85 | $ 9.66 |

(1) Our Common Stock began trading on the Nasdaq under the symbol "XELA" on July 13, 2017, the day following the closing of the Business Combination. From March 9, 2015 until the July 12, 2017 closing of the Business Combination common equity of Quinpario was traded on the Nasdaq under the symbol "QPAC." Unlike our Common Stock, the common equity traded under the symbol QPAC had cash redemption rights and other features that ceased upon the filing of a new certificate of incorporation in connection with the closing of the Business Combination. Information provided above includes data for QPAC for the period prior to July 13, 2017.

**Stockholders**

As of March 16, 2018 we had 67 record holders of our Common Stock.

**Dividends**

We have not paid any cash dividends on shares of our Common Stock to date and do not intend to pay cash dividends in the foreseeable future. The payment of cash dividends in the future will be dependent upon our revenues and earnings, capital requirements and general financial condition and is within the discretion of our board of directors. It is the present intention of the board of directors to retain all earnings for use in our business operations and, accordingly, the board does not anticipate declaring any dividends in the foreseeable future.

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**Equity Compensation Plan Information**

The following table provides information as of December 31, 2017, with respect to the shares of our Common Stock that may be issued under our existing equity compensation plans.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, RSU, Warrants and Rights (a) | Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(1) (Excluding Securities Reflected in Column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by stockholders | — | — | — |
| Equity compensation plans not approved by stockholders | — | — | — |
| Total | — | — | — |

(1) The Company currently maintains the 2018 Stock Incentive Plan, which was approved by our board of directors on December 19, 2017 and subsequently approved by a majority of our stockholders by written consent on December 20, 2017. The 2018 Stock Incentive Plan became effective on January 17, 2018 and there are 8,323,764 shares of our Common Stock reserved for issuance under our 2018 Stock Incentive Plan.

**Sale of Unregistered Securities**

There were no unregistered sales of equity securities in 2017 that have not been previously reported in a Quarterly Report on Form 10-Q or Current Report on Form 8-K.

**Issuer Purchases of Equity Securities**

The table below sets forth information with respect to purchases made by or on behalf of us or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of shares of our Common Stock during the period of November 8, 2017 through the year ended December 31, 2017:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1) | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1) |
|---|---|---|---|---|
| October, 2017 | — | $ — | — | — |
| November, 2017 | 49,300 | $ 4.97 | 49,300 | 4,950,700 |
| December, 2017 | — | $ — | — | 4,950,700 |
| Total | 49,300 | $ 4.97 | 49,300 | 4,950,700 |

(1) On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program does not

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obligate the Company to purchase any shares and expires 24 months after authorized. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. As of December 31, 2017, 49,300 shares had been repurchased under the Share Buyback Program. The Company records treasury stock using the cost method.

**Stock Performance Graph**

The stock performance graph and related information is not deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934 and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

The graph and table set forth below compares the cumulative stockholder return from July 13, 2017 (the date our Common Stock began trading on Nasdaq) through December 31, 2017, for our Common Stock, the Nasdaq composite, and a peer group. Measurement points are the last trading day of each month and we assumed that dividends have been reinvested. The selected peer group for the period is comprised of four companies that we believe are our closest reporting issuer competitors: Cognizant Technology Solutions Corp., ExlService Holdings, Inc., Genpact Ltd., and WNS (Holdings). The returns of the component entities of our peer index are weighted according to the market capitalization of each company as of the beginning of each period for which a return is presented. The returns assume that $100 was invested on July 13, 2017. The performance shown in the graph and table is historical and should not be considered indicative of future price performance.

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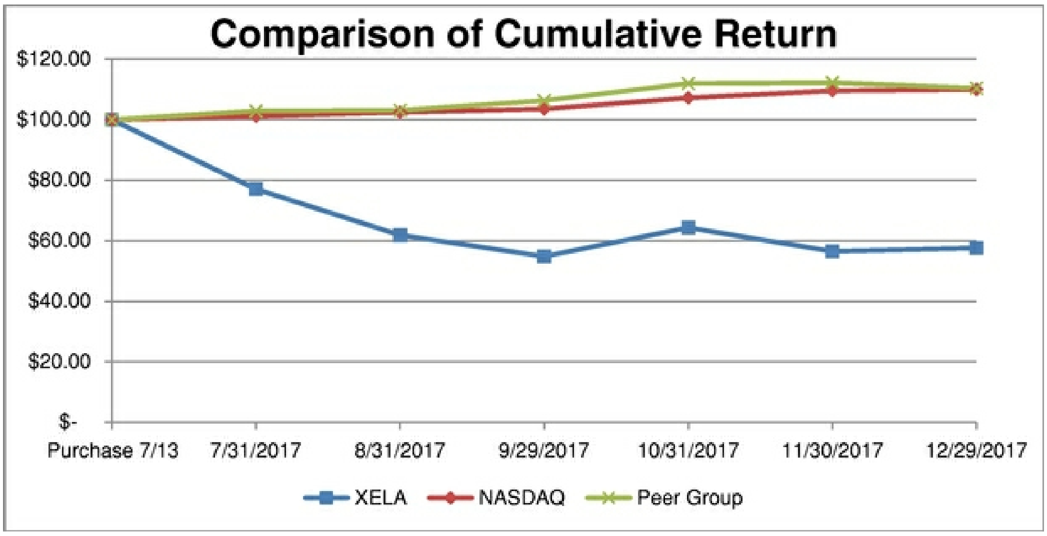


| | | Exela Technologies, Inc. | | NASDAQ | | Peer Group |
|---|---|---|---|---|---|---|
| Commence Trading as XELA 7/13/2017(1) | $ | 100.00 | $ | 100.00 | $ | 100.00 |
| 7/31/2017 | $ | 77.07 | $ | 101.17 | $ | 102.83 |
| 8/31/2017 | $ | 61.86 | $ | 102.46 | $ | 103.09 |
| 9/29/2017 | $ | 54.81 | $ | 103.53 | $ | 106.33 |
| 10/31/2017 | $ | 64.32 | $ | 107.22 | $ | 111.95 |
| 11/30/2017 | $ | 56.49 | $ | 109.56 | $ | 112.26 |
| 12/29/2017 | $ | 57.61 | $ | 110.02 | $ | 110.39 |

(1) From March 9, 2015 until the July 12, 2017 closing of the Business Combination common equity of Quinpario was traded on the Nasdaq under the symbol "QPAC." QPAC stock had cash redemption rights and other features that ceased upon the filing of a new certificate of incorporation in connection with the closing of the Business Combination. A vast majority of the holders of QPAC stock exercised their redemption rights. QPAC common equity and XELA's Common Stock are so different, we believe it would be misleading to present QPAC data from March 9, 2015 until the Business Combination as if it were XELA stock.

**ITEM 6. SELECTED FINANCIAL DATA**

The following selected consolidated financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data" of this Annual Report. Additionally, increases in revenue of $154.3 million, cost of revenue of $232.5 million, and selling, general and administrative expenses of $57.3 million from 2014 to 2015 relate to the acquisition of BancTec which occurred on October 31, 2014. Due to this acquisition the company acquired new debt and paid down existing debt in 2014. This resulted in an increase in long-term debt of $450.1 million in 2014, an increase of interest expense of $60.7 million in 2015 and a loss on extinguishment of debt in 2014 of $18.5 million. Finally, in 2014 the company impaired $154.5 million of goodwill and trade names.

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| (in thousands, except share and per share data) | Year Ended December 31, 2017 | 2016 | 2015 | 2014 | 2013 Successor Period From May 1 to December 31 | 2013 Predecessor Period From January 1 to April 30 |
|---|---|---|---|---|---|---|
| **Statements of Operations Information:** | | | | | | |
| Revenue | $ 1,152,324 | $ 789,926 | $ 805,232 | $ 650,918 | $ 449,569 | $ 229,619 |
| Cost of revenue (exclusive of depreciation and amortization) | 829,143 | 519,121 | 559,846 | 451,539 | 327,320 | 166,026 |
| Selling, general and administrative expenses | 220,955 | 130,437 | 120,691 | 131,864 | 63,360 | 44,810 |
| Depreciation and amortization | 98,890 | 79,639 | 75,408 | 65,227 | 39,217 | 15,357 |
| Impairment of goodwill and other intangible assets | 69,437 | — | — | 154,454 | — | — |
| Related party expense | 33,431 | 10,493 | 8,977 | 19,080 | — | — |
| **Operating (loss) income** | (99,532) | 50,236 | 40,310 | (171,246) | 19,672 | 3,426 |
| **Other expense (income), net:** | | | | | | |
| Interest expense, net | 128,489 | 109,414 | 108,779 | 48,045 | 24,659 | 17,428 |
| Loss on extinguishment of debt | 35,512 | — | — | 18,548 | — | 24,889 |
| Sundry expense, net | 2,295 | 712 | 3,247 | (2,201) | — | — |
| Other income, net | (1,297) | — | — | — | — | — |
| **Net loss before income taxes** | (264,531) | (59,890) | (71,716) | (235,638) | (4,987) | (38,891) |
| Income tax benefit | 60,246 | 11,787 | 26,812 | 38,003 | 1,661 | 13,551 |
| **Net loss** | (204,285) | (48,103) | (44,904) | (197,635) | (3,326) | (25,340) |
| Dividend equivalent on Series A Preferred Stock related to beneficial conversion feature | (16,375) | — | — | — | — | — |
| Cumulative dividends for Series A Preferred Stock | (2,489) | — | — | — | — | — |
| **Net loss attributable to common stockholders** | (223,149) | (48,103) | (44,904) | (197,635) | (3,326) | (25,340) |
| **Loss per share:** | | | | | | |
| Basic | (2.08) | (0.75) | (0.70) | (3.09) | (0.14) | N/A |
| Diluted | (2.08) | (0.75) | (0.70) | (3.09) | (0.14) | N/A |
| **Weighted average number of shares outstanding:** | | | | | | |
| Basic | 107,068,262 | 64,024,557 | 64,024,557 | 64,024,557 | 24,228,683 | N/A |
| Diluted | 107,068,262 | 64,024,557 | 64,024,557 | 64,024,557 | 24,228,683 | N/A |

| (in thousands) | As of December 31, 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Balance Sheet Data:** | | | | | |
| Cash and cash equivalents | $ 39,000 | $ 8,361 | $ 16,619 | $ 22,667 | $ 17,412 |
| Accounts receivable, net of allowance for doubtful accounts | 229,704 | 138,421 | 145,162 | 157,853 | 147,186 |
| Working capital | (26,049) | (41,404) | 18,162 | 42,583 | 102,124 |
| Total Assets | 1,714,838 | 969,486 | 960,048 | 1,009,797 | 1,046,184 |
| Long-term debt, net of current maturities | 1,276,094 | 983,502 | 975,142 | 952,071 | 501,962 |

| | | | | | |
|---|---|---|---|---|---|
| Total liabilities | 1,724,844 | 1,309,387 | 1,251,537 | 1,266,169 | 729,092 |
| Total stockholders' deficit | (10,006) | (339,901) | (291,489) | (256,372) | 317,092 |

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

***Forward Looking Statements***

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with a review of the other Items included in this Form 10-K and our December 31, 2017 Consolidated Financial Statements included elsewhere in this report. Certain statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" may be deemed to be forward-looking statements. See "Special Note Regarding Forward-Looking Statements."*

**Overview**

We are a global provider of transaction processing solutions, enterprise information management, document management and digital business process services. Our technology-enabled solutions allow global organizations to address critical challenges resulting from the massive amounts of data obtained and created through their daily operations. Our solutions address the life cycle of transaction processing and enterprise information management, from enabling payment gateways and data exchanges across multiple systems, to matching inputs against contracts and handling exceptions, to ultimately depositing payments and distributing communications. We believe our process expertise, information technology capabilities and operational insights enable our customers' organizations to more efficiently and effectively execute transactions, make decisions, drive revenue and profitability, and communicate critical information to their employees, customers, partners, and vendors.

**History**

We are a former blank check company that completed our initial public offering on January 22, 2015. In July 2017, Exela Technologies, Inc. ("Exela"), formerly known as Quinpario Acquisition Corp. 2 ("Quinpario"), completed its acquisition of SourceHOV Holdings, Inc. ("SourceHOV") and Novitex Holdings, Inc. ("Novitex") pursuant to the business combination agreement dated February 21, 2017 ("Business Combination"). In conjunction with the completion of the Business Combination, Quinpario was renamed Exela Technologies, Inc.

The Business Combination was accounted for as a reverse merger for which SourceHOV was determined to be the accounting acquirer. Outstanding shares of SourceHOV were converted into our Common Stock, presented as a recapitalization, and the net assets of Quinpario were acquired at historical cost, with no goodwill or other intangible assets recorded. The acquisition of Novitex was treated as a business combination under ASC 805 and was accounted for using the acquisition method. The strategic combination of SourceHOV and Novitex formed Exela, which is one of the largest global providers of information processing solutions based on revenues.

**Basis of Presentation**

This analysis is presented on a consolidated basis. In addition, a description is provided of significant transactions and events that have an impact on the comparability of the results being analyzed. Due to our specific situation, the presented financial information for the year ended December 31, 2017 is only partially comparable to the financial information for the year ended December 31, 2016. Since SourceHOV was deemed the accounting acquirer in the Business Combination consummated on July 12, 2017, the presented financial information for the year ended December 31, 2016 reflects the financial information and activities of SourceHOV only. The presented financial information for the year ended December 31, 2017 includes the financial information and activities for SourceHOV for the period January 1, 2017 to December 31, 2017 (365 days) as well as the financial information and activities of Novitex for the period July 13, 2017 to December 31, 2017

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(172 days). This lack of comparability needs to be taken into account when reading the discussion and analysis of our results of operations and cash flows. Furthermore, the presented financial information for the year ended December 31, 2017 also contains other one-time costs that are directly associated with the Business Combination, such as professional fees, to support the our new and complex legal, tax, statutory and reporting requirements following the Business Combination.

**Our Segments**

Our three reportable segments are Information & Transaction Processing Solutions ("ITPS"), Healthcare Solutions ("HS"), and Legal & Loss Prevention Services ("LLPS"). These segments are comprised of significant strategic business units that align our TPS and EIM products and services with how we manage our business, approach our key markets and interact with our customers based on their respective industries.

**ITPS:** Our largest segment, ITPS, provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries. Our major customers include 9 of the top 10 U.S. banks, 7 of the top 10 U.S. insurance companies, 5 of the top U.S. telecom companies, over 40 utility companies, over 30 state and county departments, and over 80 government entities. Our ITPS offerings enable companies to increase availability of working capital, reduce turnaround times for application processes, increase regulatory compliance and enhance consumer engagement.

**HS:** HS operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets. We serve the top 5 healthcare insurance payers and over 900 healthcare providers.

**LLPS:** Our LLPS segment provides a broad and active array of support services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters. Our customer base consists of corporate counsel, government attorneys, and law firms.

**Acquisitions**

In July 2017, we completed the Business Combination. SourceHOV was deemed to be the accounting acquirer, and is a leading provider of platform-based enterprise information management and transaction processing solutions primarily for the healthcare, banking and financial services, commercial, public sector and legal industries. Through the acquisition of SourceHOV and Novitex, we expect to realize revenue synergies, leverage brand awareness, strengthen margins, generate greater free cash flow, expand the existing Novitex sales channels, and increase utilization of the existing workforce. We anticipate opportunities for growth through the ability to leverage additional future services and capabilities.

Prior to the Business Combination, SourceHOV transformed into an industry-agnostic solution provider and acquired key technology through the acquisition of TransCentra, Inc. ("TransCentra") in September 2016, a provider of integrated outsourced billing, remittance processing and imaging software and consulting services. The addition of TransCentra increased SourceHOV's footprint in the remittance transaction processing and presentment area, expanded its mobile banking offering and enabled significant cross-selling and up-selling opportunities.

**Revenues**

ITPS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed, licensing and maintenance fees for technology sales, and a mix of fixed management fee and transactional revenue for document logistics and location services. HS revenues are primarily generated from a transaction-based pricing model for the various types of volumes

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processed for healthcare payers and providers. LLPS revenues are primarily based on time and materials pricing as well as through transactional services priced on a per item basis.

**People**

We draw on the business and technical expertise of our talented and diverse global workforce to provide our customers with high-quality services. Our business leaders bring a strong diversity of experience in our industry and a track record of successful performance and execution.

As of December 31, 2017, we had approximately 22,000 employees globally, with 52% located in the United States and the remainder located primarily in Europe, India, the Philippines, Canada, Mexico, and China.

Costs associated with our employees represent the most significant expense for our business. We incurred personnel costs of $532.3 million, $373.2 million, and $388.3 million for the years ended December 31, 2017, 2016 and 2015, respectively. The majority of our personnel costs are variable and are incurred only while we are providing our services.

**Facilities**

We lease and own numerous facilities worldwide with larger concentrations of space in Texas, Michigan, Connecticut, California, India, Mexico, the Philippines, and China. Our owned and leased facilities house general offices, sales offices, service locations, and production facilities.

The size of our active property portfolio as of December 31, 2017 was approximately 4.0 million square feet at an annual operating cost of approximately $48.3 million and comprised 159 leased properties and 8 owned properties.

We believe that our current facilities are suitable and adequate for our current businesses. Because of the interrelation of our business segments, each of the segments uses substantially all of these properties at least in part.

**Key Performance Indicators**

We use a variety of operational and financial measures to assess our performance. Among the measures considered by our management are the following:

- Revenue by segment;
- EBITDA; and
- Adjusted EBITDA.

***Revenue***

We analyze our revenue by comparing actual monthly revenue to internal projections and prior periods across our operating segments in order to assess performance, identify potential areas for improvement, and determine whether segments are meeting management's expectations.

***EBITDA and Adjusted EBITDA***

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integration costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses. See "—Other Financial Information (Non-GAAP Financial Measures)" for more

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information and a reconciliation of EBITDA and Adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP.

**Results of Operations**

**Year Ended December 31, 2017, Compared to Year Ended December 31, 2016**

| | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|
| Revenue: | | |
| ITPS | $ 827,110 | $ 439,924 |
| HS | 233,595 | 247,796 |
| LLPS | 91,619 | 102,206 |
| Total revenue | 1,152,324 | 789,926 |
| Cost of revenue: | | |
| ITPS | 620,719 | 296,848 |
| HS | 152,864 | 158,800 |
| LLPS | 55,560 | 63,473 |
| Total cost of revenue (exclusive of depreciation and amortization) | 829,143 | 519,121 |
| Selling, general and administrative expenses | 220,955 | 130,437 |
| Depreciation and amortization | 98,890 | 79,639 |
| Impairment of goodwill and other intangible assets | 69,437 | — |
| Related party expense | 33,431 | 10,493 |
| Operating income | (99,532) | 50,236 |
| Interest expense, net | 128,489 | 109,414 |
| Loss on extinguishment of debt | 35,512 | — |
| Sundry expense, net | 2,295 | 712 |
| Other (income), net | (1,297) | — |
| Net loss before income taxes | (264,531) | (59,890) |
| Income tax benefit | 60,246 | 11,787 |
| Net loss | (204,285) | (48,103) |

***Revenue***

Our revenue increased $362.4 million, or 45.9%, to $1,152.3 million for the year ended December 31, 2017 compared to $789.9 million for the year ended December 31, 2016. This increase is primarily related to an increase in our ITPS segment revenues of $387.2 million, which was primarily attributable to the acquisition of TransCentra in 2016 and Novitex in 2017. The increase was partially offset by a decrease in revenues in the HS segment and LLPS segment of $14.2 million and $10.6 million, respectively. Our ITPS, HS, and LLPS segments constituted 71.8%, 20.3%, and 7.9% of our total revenue, respectively, for the year ended December 31, 2017, compared to 55.7%, 31.4%, and 12.9%, respectively, for the year ended December 31, 2016. The revenue changes by reporting segment was as follows:

ITPS—Revenues increased $387.2 million, or 88.0%, to $827.1 million for the year ended December 31, 2017 compared to $439.9 million for the year ended December 31, 2016. The increase was primarily attributable to the acquisition of Novitex, which contributed $292.1 million of the increase. Additionally, the acquisition of TransCentra contributed $94.1 million of the increase. The remaining increase in revenue was the result of net increases in services provided to ITPS customers.

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HS—Revenues decreased $14.2 million, or 5.7%, to $233.6 million for the year ended December 31, 2017 compared to $247.8 million for the year ended December 31, 2016. The decrease was primarily attributable to a surge in demand from healthcare provider customers in early 2016 as a result of a change in regulatory coding requirements beginning in the fourth quarter of 2015, resulting in a decline in revenue of $17.9 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. We have since experienced a normalization of demand as healthcare provider customers have reduced outsourcing of the service. The decrease was partially offset by an increase in revenues of $3.7 million from the Payer business during the period.

LLPS—Revenues decreased $10.6 million, or 10.4%, to $91.6 million for the year ended December 31, 2017 compared to $102.2 million for the year ended December 31, 2016. The decrease was primarily attributable to lower revenue resulting from the sale of Meridian Consulting Group, LLC of approximately $4.4 million, lower revenue from the legal claims administration services of $4.3 million, and lower revenue from labor and employment practice of $1.9 million, during the year ended December 31, 2017, compared to the year ended December 31, 2016.

***Cost of Revenue***

Cost of revenue increased $310.0 million, or 59.7%, to $829.1 million for the year ended December 31, 2017 compared to $519.1 million for year ended December 31, 2016. The increase was primarily attributable to an increase in the ITPS segment of $323.9 million, offset by decreases in the HS and LLPS segments of $5.9 million and $7.9 million, respectively. The cost of revenue decrease by operating segment was as follows:

ITPS—Cost of revenue increased $323.9 million, or 109.1%, to $620.7 million for the year ended December 31, 2017 compared to $296.8 million for year ended December 31, 2016. The increase was primarily attributable to the acquisition of Novitex, which contributed $248.6 million. The acquisition of TransCentra contributed approximately $75.4 million. The increase was partially offset by various cost savings initiatives implemented during the year ended December 31, 2017.

HS—Cost of revenue decreased $5.9 million, or 3.7%, to $152.9 million for the year ended December 31, 2017 compared to $158.8 million for year ended December 31, 2016. This was primarily attributable to normalization of demand for coding during the year ended December 31, 2017 after the surge we experienced in early 2016 as a result of the increased healthcare coding requirements, resulting in a decrease of $4.5 million, along with an associated decrease in revenue. Additionally, there was a decrease of $1.4 million due to various cost savings initiatives from the Payer business during the year ended December 31, 2017.

LLPS—Cost of revenue decreased $7.9 million, or 12.4%, to $55.6 million for the year ended December 31, 2017 compared to $63.5 million for year ended December 31, 2016. The decrease was primarily attributable to a decrease in revenues of $2.7 million as a result of the sale of Meridian Consulting Group, LLC, a decrease from the legal claims administration of $2.6 million, and a decrease of $2.6 million due to lower revenues from labor and employment practice.

***Selling, General and Administrative Expenses ("SG&A")***

Selling, general, and administrative expenses increased $90.6 million, or 69.5%, to $221.0 million for the year ended December 31, 2017 compared to $130.4 million for the year ended December 31, 2016. The increase was primarily attributable to the expenses for professional fees related to the Business Combination, which contributed $60.0 million in expense for the year ended December 31, 2017. Additionally, the increase is attributable to acquisitions of Novitex and TransCentra, which contributed $25.2 million and $8.3 million, respectively, in expense for the year ended December 31, 2017. The increases were partially offset by a decrease due to cost saving initiatives we implemented, including reduced medical insurance expenditures and administrative personnel costs.

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***Depreciation & Amortization***

Depreciation and amortization expense increased $19.3 million, or 24.2%, to $98.9 million for the year ended December 31, 2017 compared to $79.6 million for the year ended December 31, 2016. The increase was primarily attributable to higher balances of customer relationships, developed technology, and outsourced contract costs, resulting in higher amortization expense for the year ended December 31, 2017 compared to the year ended December 31, 2016.

***Impairment of Goodwill and Other Intangible Assets***

Impairment of goodwill and other intangible assets for the year ended December 31, 2017 was $69.4 million. There was no impairment recorded in 2016. As a result of declining revenue and a change in our branding and marketing strategy, we quantitatively assessed goodwill and other intangible assets as part of our annual impairment test. This assessment resulted in an impairment charge of $30.1 million for goodwill for the LLPS reporting unit, and $39.3 million related to our trade names intangible assets.

***Related Party Expense***

Related party expense increased $22.9 million to $33.4 million for the year ended December 31, 2017 compared to $10.5 million for the year ended December 31, 2016. The increase was primarily attributable to contract termination and advising fees as a result of the Business Combination.

***Interest Expense***

Interest expense increased $19.1 million, or 17.5%, to $128.5 million for the year ended December 31, 2017 compared to $109.4 million for the year ended December 31, 2016. The increase was primarily attributable to the issuance of new debt in conjunction with the Business Combination.

***Loss on Extinguishment of Debt***

Loss on extinguishment of debt for the year ended December 31, 2017 was $35.5 million relating to the restructuring and Business Combinations. There was no loss on extinguishment in 2016.

***Sundry Expense***

Sundry expense increased by $1.6 million to $2.3 million for the year ended December 31, 2017 compared to $0.7 million for the year ended December 31, 2016. The increase was mainly attributable to higher foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

Other income for the year ended December 31, 2017 was $1.3 million. There was no other income in 2016 as this item relates solely to the interest rate swap entered into in 2017. The interest rate swap was not designated as a hedge. As such, changes in the fair value of the derivative are recorded directly in earnings.

***Income Tax Benefit***

Income tax benefit increased $48.4 million to $60.2 million for the year ended December 31, 2017 compared to $11.8 million for the year ended December 31, 2016. The increase in the income tax benefit was primarily due to net deferred tax liabilities assumed in the acquisition of Novitex which reduced the valuation allowance.

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**Results of Operations**

**Year Ended December 31, 2016, Compared to Year Ended December 31, 2015**

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|---|---|---|
| Revenue: | | |
| ITPS | $ 439,924 | $ 421,409 |
| HS | 247,796 | 251,685 |
| LLPS | 102,206 | 132,138 |
| Total revenue | 789,926 | 805,232 |
| Cost of revenue: | | |
| ITPS | 296,848 | 303,067 |
| HS | 158,800 | 174,380 |
| LLPS | 63,473 | 82,399 |
| Total cost of revenue (exclusive of depreciation and amortization) | 519,121 | 559,846 |
| Selling, general and administrative expenses | 130,437 | 120,691 |
| Depreciation and amortization | 79,639 | 75,408 |
| Related party expense | 10,493 | 8,977 |
| Operating income | 50,236 | 40,310 |
| Interest expense, net | 109,414 | 108,779 |
| Loss on extinguishment of debt | — | — |
| Sundry expense, net | 712 | 3,247 |
| Net loss before income taxes | (59,890) | (71,716) |
| Income tax benefit | 11,787 | 26,812 |
| Net loss | (48,103) | (44,904) |

***Revenue***

Our revenue decreased $15.3 million, or 1.9%, to $789.9 million for the year ended December 31, 2016 compared to $805.2 million for the year ended December 31, 2015. This decrease is primarily related to a decrease in our LLPS segment revenues of $29.9 million. For the year ended December 31, 2016, our ITPS, HS, and LLPS segments constituted 55.7%, 31.4%, and 12.9% of our total revenue, respectively, compared to 52.3%, 31.3%, and 16.4%, respectively, for the year ended December 31, 2015. The revenue changes by reporting segment was as follows:

ITPS—Revenues increased $18.5 million, or 4.4%, to $439.9 million for the year ended December 31, 2016 compared to $421.4 million for the year ended December 31, 2015. The increase is primarily attributable to the acquisition of TransCentra which contributed approximately $33.3 million in revenue. The increase was partially offset by a $7.5 million decrease resulting from the impact of the devaluation of GBP and EUR against the USD in our European business due to the potential exit of the United Kingdom from the European Union. Additional offsets were a decrease of $4.4 million in pass through revenue and decrease of $3.9 million from shifts in customer volumes in the unified communication service lines.

HS—Revenues decreased $3.9 million, or 1.5%, to $247.8 million for the year ended December 31, 2016 compared to $251.7 million for the year ended December 31, 2015. The revenue decrease was primarily driven by an $11.4 million decline in a federal contract due to volume constraints resulting

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from a site consolidation project executed in mid-2016, partially offset by a $9.7 million increase in revenue due to higher volumes from existing customers and the on-boarding of new customers.

LLPS—Revenues decreased $29.9 million, or 22.7%, to $102.2 million for the year ended December 31, 2016 compared to $132.1 million for the year ended December 31, 2015. The decrease was primarily due to declines of $24.0 million in the legal claims administration services including the winding down of the outsourced contract costs mortgage mega-case settlement. The legal claims administration market has shifted from major restitutions to fines and settlements from the regulatory authorities. The market remains steady with a supply of small settlements and cases in the absence of any mega-cases for settlement. The remaining decrease was primarily attributable to the labor and employment practice as the Company continues to right-size the employee base to improve utilization metrics per full time equivalent and reduce fixed costs.

***Cost of Revenue***

Cost of revenue decreased $40.7 million, or 7.3%, to $519.1 million for the year ended December 31, 2016 compared to $559.8 million for year ended December 31, 2015. The decrease was primarily attributable to decreases in the ITPS, HS and LLPS segments of $6.3 million, $15.6 and $18.9 million, respectively. The cost of revenue decrease by operating segment was as follows:

ITPS—Cost of revenue decreased $6.3 million, or 2.1%, to $296.8 million for the year ended December 31, 2016 compared to $303.1 million for year ended December 31, 2015. The decrease was primarily attributable to $27.8 million in cost saving initiatives implemented during the year for various service offerings, a decrease of $4.4 million in pass-through expenses and a decrease of $2.3 million in the unified communication service lines due to the shift in customer volumes. These decreases were partially offset by an increase in cost of revenue of $27.2 million related to the acquisition of TransCentra.

HS—Cost of revenue decreased $15.6 million, or 8.9%, to $158.8 million for the year ended December 31, 2016 compared to $174.4 million for year ended December 31, 2015. The decrease was primarily attributable to $13.6 million in cost saving initiatives implemented during the year for various service offerings and a $2.0 million decrease related to changes in revenue mix.

LLPS—Cost of revenue decreased $18.9 million, or 23.0%, to $63.5 million for the year ended December 31, 2016 compared to $82.4 million for year ended December 31, 2015. The decrease was primarily related to the changes in revenue mix. The cost of revenues declined by $11.8 million primarily due to lower revenue in the legal claims administration service lines including the winding down of the outsourced contract costs mortgage settlement. Additionally, a decrease of $5.6 million was driven by the labor and employment practice as it scaled down during the year.

***Selling, General and Administrative Expenses***

Selling, general, and administrative expenses increased $9.7 million, or 8.1%, to $130.4 million for the year ended December 31, 2016 compared to $120.7 million for the year ended December 31, 2015. The increase was primarily due to increases in personnel costs and professional fees.

***Depreciation & Amortization***

Depreciation and amortization expense increased $4.2 million, or 5.6%, to $79.6 million for the year ended December 31, 2016 compared to $75.4 million for the year ended December 31, 2015. The increase was primarily related to the write-off of outsourced contract costs during the year ended December 31, 2016.

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***Related Party Expense***

Related party expense increased $1.5 million, or 16.9%, to $10.5 million for the year ended December 31, 2016 compared to $9.0 million for the year ended December 31, 2015.

***Interest Expense***

Interest expense increased $0.6 million, or 0.6%, to $109.4 million for the year ended December 31, 2016 compared to $108.8 million for the year ended December 31, 2015.

***Sundry Expense***

Sundry expense decreased by $2.5 million, or 78.1%, to $0.7 million for the year ended December 31, 2016 compared to $3.2 million for the year ended December 31, 2015. The decrease was mainly attributable to higher foreign currency transaction losses associated with exchange rate fluctuations during 2015.

***Income Tax Benefit***

Income tax benefit decreased $15.0 million to $11.8 million for the year ended December 31, 2016 compared to $26.8 million for the year ended December 31, 2015. The decrease was due to a decrease in the effective tax rate of 17% resulting from a partial valuation allowance being recorded against certain U.S. federal and state net operating loss carryforwards. At December 31, 2016, we concluded it was not "more likely than not" that a portion of its net operating loss and tax credit carryforwards will be realized.

**Other Financial Information (Non-GAAP Financial Measures)**

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integration costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses.

We present EBITDA and Adjusted EBITDA because we believe they provide useful information regarding the factors and trends affecting our business in addition to measures calculated under GAAP. Additionally, our credit agreement requires us to comply with certain EBITDA related metrics. Refer to "—Liquidity and Capital Resources—Indebtedness."

***Note Regarding Non-GAAP Financial Measures***

EBITDA and Adjusted EBITDA are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial performance and results of operations as our board of directors and management use EBITDA and Adjusted EBITDA to assess our financial performance, because it allows them to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization) and items outside the control of our management team. Net loss is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some but not all items that affect the most directly comparable GAAP financial measures. These non-GAAP financial measures are not required to be uniformly applied, are

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not audited and should not be considered in isolation or as substitutes for results prepared in accordance with GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

The following tables present a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the years ended December 31, 2017, 2016, and 2015:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Net Loss | $ (204,285) | $ (48,103) | $ (44,904) |
| Taxes | (60,246) | (11,787) | (26,812) |
| Interest expense | 128,489 | 109,414 | 108,779 |
| Depreciation and amortization | 98,890 | 79,639 | 75,408 |
| EBITDA | (37,152) | 129,163 | 112,471 |
| Optimization and restructuring expenses(1) | 42,524 | 7,559 | 5,210 |
| Transaction and integration costs(2) | 88,935 | 18,848 | 18,466 |
| Non-cash equity compensation(3) | 6,743 | 7,085 | 8,122 |
| Other non-cash charges(4) | 518 | 471 | 1,881 |
| Loss on sale of assets(5) | 40 | 2,274 | 284 |
| Gain on sale of Meridian(6) | (588) | — | — |
| Management, board fees and expenses(7) | 4,153 | 7,837 | 6,897 |
| Loss on extinguishment of debt(8) | 35,512 | — | — |
| Gain / loss on derivative instruments(9) | (1,297) | — | — |
| Impairment of intangible assets(10) | 39,370 | — | — |
| Impairment of Goodwill(11) | 30,067 | — | — |
| Adjusted EBITDA | 208,825 | 173,237 | 153,331 |

(1) Adjustment represents compensation expense associated with positions that were terminated, including severance, retention bonuses, and related fees and expenses. Additionally, the adjustment includes charges incurred by us to terminate existing lease contracts as part of facility consolidation initiatives.

(2) Represents costs incurred related to transactions and integration for completed or contemplated transactions during the period. For the year ended December 31, 2017, only transaction costs were incurred.

(3) Represents the non-cash expenses related to restricted stock units granted by Ex-Sigma, LLC to our employees that vested during the year.

(4) Represents fair value adjustments to deferred revenue and deferred rent accounts established as part of purchase accounting.

(5) Represents a loss recognized on the disposal of property, plant and equipment and other assets.

(6) Represents a gain recognized on the disposal of Meridian Consulting Group, LLC.

(7) Amount represents management fees paid to HGM and TransCentra's prior owner, board of directors' fees and corresponding travel, and other expenses (e.g., rating agency fees, chargebacks) which are not expected to continue.

(8) Represents a loss recognized due to restructuring of debt facilities in connection with the Business Combination.

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(9) Represents the impact of changes in the fair value of an interest rate swap entered into during the fourth quarter of 2017.

(10) Represents impairment charges recorded for indefinite lived intangible assets during the fourth quarter of 2017.

(11) Represents impairment charges recorded for goodwill during the fourth quarter of 2017.

**Year Ended December 31, 2017 compared to the Year Ended December 31, 2016**

***EBITDA and Adjusted EBITDA***

EBITDA was $(37.2) million for the year ended December 31, 2017 compared to $129.2 million for the year ended December 31, 2016. Adjusted EBITDA was $208.8 million for the year ended December 31, 2017 compared to $173.2 million for the year ended December 31, 2016. The decrease in EBITDA was primarily due to a higher net loss amount for the year ended December 31, 2017 resulting from an increase in selling, general and administrative expenses, related party expense, and loss on extinguishment of debt compared to the year ended December 31, 2016. The increase in Adjusted EBITDA was primarily due higher overall gross profit for the year ended December 31, 2017 compared to the year ended December 31, 2016, along with lower recurring expenses as part of on-going operations.

**Year Ended December 31, 2016 compared to the Year Ended December 31, 2015**

***EBITDA and Adjusted EBITDA***

EBITDA was $129.2 million for the year ended December 31, 2016 compared to $112.5 million for the year ended December 31, 2015. Adjusted EBITDA was $173.2 million for the year ended December 31, 2016 compared to $153.3 million for the year ended December 31, 2015. The increase in EBITDA and Adjusted EBITDA resulted from an increase in gross profit, offset partially by an increase in SG&A expenses, as discussed above. Additionally, the increase was partially due to a decrease in the income tax benefit amount compared to 2015.

**Liquidity and Capital Resources**

**Overview**

Our primary source of liquidity is principally cash generated from operating activities supplemented as necessary on a short-term basis by borrowings against our senior secured revolving credit facility. We believe our current level of cash and short term financing capabilities along with future cash flows from operations are sufficient to meet the needs of the business.

We currently expect to spend approximately $40.0 to $45.0 million on total capital expenditures over the next twelve months. We believe that our operating cash flow and available borrowings under our credit facility will be sufficient to fund our operations for at least the next twelve months.

At December 31, 2017, cash and cash equivalents totaled $39.0 million, and we had availability of $79.1 million under our senior secured revolving credit facility.

In connection with the Business Combination, we acquired debt facilities and issued notes totaling $1.4 billion. Proceeds from the acquired debt were used to refinance the existing debt of SourceHOV, settle the outstanding debt facilities for Novitex, and pay fees and expenses incurred in connection with the Business Combination. We entered into a Credit Agreement with a $350.0 million senior secured term loan, a $100.0 million senior secured revolving facility, and $1.0 billion in First Priority Senior Secured Notes (the "Senior Secured Notes"). The $100.0 million revolver remained undrawn (net of letters of credit) at the time of compilation of this report.

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On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires 24 months after authorization. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. As of December 31, 2017, 49,300 shares had been repurchased under the Share Buyback Program.

**Cash Flows**

The following table summarizes our cash flows for the periods indicated:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Cash flow from operating activities | $ 42,369 | $ 68,658 | $ 7,438 |
| Cash flow used in investing activities | (452,374) | (31,602) | (34,432) |
| Cash flows (used in) provided by financing activities | 440,215 | (43,255) | 21,618 |
| Subtotal | 30,210 | (6,199) | (5,376) |
| Effect of exchange rates on cash | 429 | (2,059) | (672) |
| Net increase/(decrease) in cash | 30,639 | (8,258) | (6,048) |

**Analysis of Cash Flow Changes between the years ended December 31, 2017, December 31, 2016, and December 31, 2015**

Operating Activities—Net cash provided by operating activities was $42.4 million for the year ended December 31, 2017, compared to $68.7 million for the year ended December 31, 2016. The decrease of $26.3 million in cash flow from operating activities was primarily due to decreases in operating results, greater cash outflows from accounts payable and accrued liabilities due to timing of payments, and lower cash inflows from accounts receivable due to the timing of collections.

Net cash provided by operating activities was $68.7 million for the year ended December 31, 2016, compared to $7.4 million for the year ended December 31, 2015. The increase of $61.3 million in cash from operating activities was primarily due to increases in operating results, lower cash outflows from accounts payable due to timing of payments, and greater cash inflow from accounts receivable due to the timing of collections, partially offset by decreases in prepaid expenses.

Investing Activities—Net cash used in investing activities was $452.4 million for the year ended December 31, 2017, compared to $31.6 million for the year ended December 31, 2016. The increase of $420.8 million in cash used in investing activities was primarily due to cash paid to acquire Novitex, partially offset by proceeds received from the sale of Meridian Consulting Group, LLC during the year ended December 31, 2017, as well as higher additions to intangible assets during the year ended December 31, 2016.

Net cash used in investing activities was $31.6 million for the year ended December 31, 2016, compared to $34.4 million for the year ended December 31, 2015. The decrease of $2.8 million in cash used in investing activities was primarily due to increases in cash utilized for capitalized software costs and outsourced contract costs, offset by the strategic cash payment in 2015 for the option to acquire TransCentra, net of the cash acquired in 2016 from the acquisition of TransCentra.

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Financing Activities—Net cash provided by financing activities was $440.2 million for the year ended December 31, 2017, compared to cash used in financing activities of $43.3 million for the year ended December 31, 2016. The increase of $483.5 million in cash provided by financing activities was primarily due to proceeds from issuance of stock and cash received from Quinpario in the amount of $231.4 million, as well as proceeds from a new credit facility of $1,320.5 million during the year ended December 31, 2017, which was partially offset by the retirement of the previous credit facilities of $1,055.7 million.

Net cash used in financing activities was $43.3 million for the year ended December 31, 2016, compared to net cash provided by financing activities of $21.6 million for the year ended December 31, 2015. The change in cash used in financing activities was primarily due to a decrease in borrowings from the revolvers, as well as an increase in principal payments on the long-term obligations.

**Indebtedness**

As noted, in connection with the Business Combination on July 12, 2017, we acquired debt facilities and issued notes totaling $1.4 billion. Proceeds from the indebtedness were used to pay off credit facilities existing immediately before the Business Combination.

*Senior Credit Facilities*

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the "Credit Agreement") providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, (i) a $350.0 million senior secured term loan maturing July 12, 2023 with an original issue discount of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022, none of which is currently drawn. The Credit Agreement provides for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company's option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity. As of December 31, 2017 the interest rate applicable for the first lien senior secured term loan was 9.064%.

*Senior Secured Notes*

Upon the closing of the Business Combination on July 12, 2017, the Company issued $1.0 billion in aggregate principal amount of 10.0% First Priority Senior Secured Notes due 2023 (the "Notes"). The Notes are guaranteed by certain subsidiaries of the Company. The Notes bear interest at a rate of 10.0% per year. The Company pays interest on the Notes on January 15 and July 15 of each year, commencing on January 15, 2018. The Notes will mature on July 15, 2023.

*Letters of Credit*

As of December 31, 2017 and December 31, 2016, we had outstanding irrevocable letters of credit totaling approximately $20.9 million and $9.3 million, respectively, under the revolving credit facility.

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**Contractual Obligations**

The table below provides estimates of the timing of future payments that we are obligated to make based on agreements in place at December 31, 2017.

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Less than 1 Year | 1 - 3 Years | 3 - 5 Years | More than 5 Years | Total |
| | | | (in millions) | | |
| Credit Facilities | 8.8 | 28.4 | 35.0 | 1,275.6 | 1,347.8 |
| Interest payments | 132.6 | 262.2 | 255.5 | 66.5 | 716.8 |
| Capital lease obligations | 18.3 | 17.9 | 7.7 | 4.9 | 48.8 |
| Operating lease obligations | 36.9 | 48.9 | 27.4 | 16.4 | 129.6 |
| Other obligations | 11.8 | 3.3 | 2.4 | — | 17.5 |
| Pension related obligations(1) | 2.5 | — | — | — | 2.5 |
| Total | 210.9 | 360.7 | 328.0 | 1,363.4 | 2,263.0 |

(1) We sponsor pension related obligations that require periodic cash distributions. In 2018, based on current actuarial calculations, we expect to make additional contributions of approximately $2.5 million to our worldwide pension related obligations. Contributions to our pension related obligations in subsequent years will depend on a number of factors, including the investment performance of plan assets and discount rates as well as potential legislative and plan changes.

**Potential Future Transactions**

We may, from time to time explore and evaluate possible strategic transactions, which may include joint ventures, as well as business combinations or the acquisition or disposition of assets. In order to pursue certain of these opportunities, additional funds will likely be required. Subject to applicable contractual restrictions, to obtain such financing, we may seek to use cash on hand, borrowings under our revolving credit facility, or we may seek to raise additional debt or equity financing through private placements or through underwritten offerings. There can be no assurance that we will enter into additional strategic transactions or alliances, nor do we know if we will be able to obtain the necessary financing for transactions that require additional funds on favorable terms, if at all. In addition, pursuant to the Registration Rights Agreement that we entered into in connection with the closing of the Business Combination, certain of our stockholders have the right to demand underwritten offerings of our Common Stock. We are exploring, and may from time to time in the future explore, with certain of those stockholders the possibility of an underwritten public offering of our Common Stock held by those stockholders. There can be no assurance as to whether or when an offering may be commenced or completed, or as to the actual size or terms of the offering.

**Critical Accounting Policies and Estimates**

The preparation of financial statements requires the use of judgments and estimates. Our critical accounting policies are described below to provide a better understanding of how we develop our assumptions and judgments about future events and related estimations and how they can impact our financial statements. A critical accounting estimate is one that requires subjective or complex estimates and assessments, and is fundamental to our results of operations. We base our estimates on historical experience and on various other assumptions we believe to be reasonable according to the current facts and circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We believe the current assumptions, judgments and estimates used to determine amounts reflected in our consolidated financial statements are appropriate; however, actual results may differ under different conditions. This

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discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included in this document.

*Goodwill and other intangible assets:* Goodwill and other intangible assets are initially recorded at their fair values. Goodwill represents the excess of the purchase price of acquisitions over the fair value of the net assets acquired. Our goodwill at December 31, 2017 and December 31, 2016 was $747.3 million and $373.3 million, respectively. Goodwill and other intangible assets not subject to amortization are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Intangible assets with finite useful lives are amortized either on a straight-line basis over the asset's estimated useful life or on a basis that reflects the pattern in which the economic benefits of the intangible assets are realized.

*Outsourced contract costs:* In connection with services arrangements, we incur and capitalize costs to originate long-term contracts. Certain initial direct costs of an arrangement are capitalized and amortized over the contractual service period of the arrangement to cost of services. We regularly review costs to determine appropriateness for deferral in accordance with the relevant accounting guidance. Key estimates and assumptions that we must make include projecting future cash flows in order to assess the recoverability of deferred costs. To assess recoverability, cash flows are projected over the remaining life and compared to the carrying amount of contract related assets, including the unamortized deferred cost balance. Such estimates require judgment and assumptions, which are based upon the professional knowledge and experience of our personnel. A significant change in an estimate or assumption on one or more contracts could have a material effect on our results of operations.

*Impairment of goodwill, long-lived and other intangible assets:* Long-lived assets, such as property and equipment and finite-lived intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Recoverability is measured by a comparison of their carrying amount to the estimated undiscounted cash flows to be generated by those assets. If the undiscounted cash flows are less than the carrying amount, we record impairment losses for the excess of the carrying value over the estimated fair value. Fair value is determined, in part, by the estimated cash flows to be generated by those assets. Our cash flow estimates are based upon, among other things, historical results adjusted to reflect our best estimate of future market rates, and operating performance. Development of future cash flows also requires us to make assumptions and to apply judgment, including timing of future expected cash flows, using the appropriate discount rates, and determining salvage values. The estimate of fair value represents our best estimates of these factors, and is subject to variability. Assets are generally grouped at the lowest level of identifiable cash flows, which is the reporting unit level for us. Changes to our key assumptions related to future performance and other economic factors could adversely affect our impairment valuation.

We test our indefinite lived intangible assets on October 1$^{st}$ of each year, or more frequently if events or changes in circumstances indicate that the assets may be impaired. When performing the impairment test, we have the option of performing a qualitative or quantitative assessment to determine if an impairment has occurred. A quantitative assessment requires comparison of fair value of the asset to its carrying value. We utilize the Income Approach, specifically the Relief-from-Royalty method, which has the basic tenet that a user of that intangible asset would have to make a stream of payments to the owner of the asset in return for the rights to use that asset. By acquiring the intangible asset, the user avoids these payments. Application of the indefinite lived intangible asset impairment test requires judgment, including determination of royalty rates, and projecting revenue attributable to the assets in order to determine fair value. On October 1, 2017, we elected to bypass the qualitative assessment and perform a quantitative assessment of the carrying value of our indefinite-lived intangible assets as of our annual impairment testing date. As a result of this analysis, $6.3 million of impairment was recorded due to the decline in the valuation of trade names. Additionally, later during

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the fourth quarter of 2017, due to a change in our anticipated marketing strategy for 2018 and expected use of certain names, we performed another quantitative impairment test as of December 31, 2017. As a result of this analysis, $33.0 million of additional impairment was recorded due to the decline in the valuation of trade names. As part of the analysis, we also reconsidered the expected useful lives of certain indefinite-lived trade names. We reduced the estimated useful lives of those trade names to one year, and will commence amortization over the remaining useful life beginning in 2018.

We conduct our annual goodwill impairment tests on October 1$^{st}$ of each year, or more frequently if indicators of impairment exist. When performing the annual impairment test, we have the option of performing a qualitative or quantitative assessment to determine if an impairment has occurred. If a qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we would be required to perform a quantitative impairment test for goodwill. A quantitative test requires comparison of fair value of the reporting unit to its carrying value, including goodwill. We use a combination of the Guideline Public Company Method of the Market Approach and the Discounted Cash Flow Method of the Income Approach to determine the reporting unit fair value. For the Guideline Public Company Method, our annual impairment test utilizes discounted cash flow projections using weighted average cost of capital calculations based on capital structures of publicly traded peer companies. For the Discounted Cash Flow Method, our annual impairment test utilizes discounted cash flow projections using our weighted average cost of capital calculation. If the fair value of goodwill at the reporting unit level is less than its carrying value, an impairment loss is recorded for the amount by which a reporting unit's carrying amount exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. During the year ended December 31, 2017, due to a decline in revenues and operations in our LLPS reporting unit, we elected to bypass the qualitative assessment and perform a quantitative impairment assessment of the carrying value of our goodwill. As a result of the analysis, we recorded an impairment charge of $30.1 million for the LLPS reporting unit's goodwill. As of the annual impairment testing date in 2017, the fair values of the ITPS and HS reporting units exceeded the carrying value by 61.7% and 130.9%, respectively.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, allocation of assets and liabilities to reporting units, and determination of fair value. The determination of reporting unit fair value is sensitive to the amount of EBITDA generated by us, as well as the EBITDA multiple used in the calculation. Unanticipated changes, including immaterial revisions, to these assumptions could result in a provision for impairment in a future period. Given the nature of these evaluations and their application to specific assets and time frames, it is not possible to reasonably quantify the impact of changes in these assumptions.

*Revenue:* Application of the various accounting principles in GAAP related to the measurement and recognition of revenue requires us to make judgments and estimates. Complex arrangements with nonstandard terms and conditions may require significant contract interpretation to determine the appropriate accounting. *Refer to Note 2—Basis of Presentation and Summary of Significant Accounting Policies* for additional information regarding our revenue recognition policy.

If a contract involves the provision of a single element, revenue is generally recognized when the product or service is provided and the amount earned is not contingent upon any future event. Revenue from time and materials arrangements is recognized as the services are performed.

*Multiple element arrangements*

We also enter into multiple element arrangements involving various combinations. The deliverables within these arrangements are evaluated at contract inception to determine whether they represent separate units of accounting, and if so, contract consideration is allocated to each deliverable based on relative selling price. With respect to arrangements including tangible products containing both software

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and non-software components that function together to deliver the product's essential functionality, the relative selling price is determined using vendor specific objective evidence ("VSOE") of fair value, third-party evidence or best estimate of selling price. For our multiple element arrangements that are comprised solely of software and software elements, revenue is allocated to the various elements based on VSOE of fair value and the residual method to allocate the arrangement consideration. Revenue is then recognized in accordance with the appropriate revenue recognition guidance applicable to the respective elements.

If the multiple element arrangements criteria are not met, the arrangement is accounted for as one unit of accounting which would result in revenue being recognized on a straight-line basis over the period of delivery or being deferred until the earlier of when such criteria are met or when the last element is delivered.

*Income Taxes:* We account for income taxes by using the asset and liability method. We account for income taxes regarding uncertain tax positions and recognize interest and penalties related to uncertain tax positions in income tax benefit/ (expense) in the consolidated statements of operations.

The Tax Cuts and Jobs Act ("TCJA") was signed by the President of the United States and enacted into law on December 22, 2017. The TCJA significantly changes U.S. tax law by reducing the U.S. corporate income tax rate to 21% from 35%, adopting a territorial tax regime, creating new taxes on certain foreign sourced earnings and imposing a one-time transition tax on the undistributed earnings of certain non-U.S. subsidiaries.

Accounting Standards Codification Topic 740, Income Taxes ("ASC 740") requires companies to account for the tax effects of changes in income tax rates and laws in the period in which legislation is enacted (December 22, 2017). ASC 740 does not specifically address accounting and disclosure guidance in connection with the income tax effects of the TCJA. Consequently, on December 22, 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), to address the application of ASC 740 in the reporting period that includes the date the TCJA was enacted. SAB 118 allows companies a reasonable period of time to complete the accounting for the income tax effects of the TCJA.

At December 31, 2017, the Company has not completed the accounting for the income tax effects of the TCJA. However, pursuant to SAB 118, the Company has made provisional estimates of the effects of existing deferred tax assets and liabilities and the one-time transition tax.

Deferred income taxes are recognized on the tax consequences of temporary differences by applying enacted statutory tax rates applicable in future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, as determined under tax laws and rates. A valuation allowance is provided when it is more likely than not that all or some portion of the deferred tax assets will not be realized. Due to numerous ownership changes, we are subject to limitations on existing net operating losses under Section 382 of the Internal Revenue Code (the Code). In the event we determine that we would be able to realize deferred tax assets that have valuation allowances established, an adjustment to the deferred tax assets would be recognized as a component of income tax expense through continuing operations.

We engage in transactions (such as acquisitions) in which the tax consequences may be subject to uncertainty and examination by the varying taxing authorities. Significant judgment is required by us in assessing and estimating the tax consequences of these transactions. While our tax returns are prepared and based on our interpretation of tax laws and regulations, in the normal course of business the tax returns are subject to examination by the various taxing authorities. Such examinations may result in future assessments of additional tax, interest and penalties. For purposes of our income tax provision, a tax benefit is not recognized if the tax position is not more likely than not to be sustained based solely

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on its technical merits. Considerable judgment is involved in determining which tax positions are more likely than not to be sustained.

*Business Combinations:* We allocate the total cost of an acquisition to the underlying assets based on their respective estimated fair values. Determination of fair values involves significant estimates and assumptions about highly subjective variables, including future cash flows, discount rates, and asset lives. The estimates of the fair values of assets and liabilities acquired are based upon assumptions believed to be reasonable and, when appropriate, include assistance from independent third-party valuation firms.

Because we are primarily a services business, our acquisitions typically result in significant amounts of goodwill and other intangible assets. Fair value estimates and calculations for these acquisitions will affect the amount of amortization expense, or possible impairment related charges recognized in future periods. We base our fair value estimates on assumptions we believe are reasonable, but recognize that the assumptions are inherently uncertain.

**JOBS Act**

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, relax certain reporting requirements for qualifying public companies. We had previously elected to delay the adoption of new or revised accounting standards as an emerging growth company; however, we no longer qualify as an emerging growth company and will be required to comply with new or revised accounting standards using public company effective dates.

**Recently Adopted and Recently Issued Accounting Pronouncements**

See Note 2 to the consolidated financial statements.

**Internal Controls and Procedures**

As a publicly traded company, we are required to comply with the SEC's rules implementing Section 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting. However, as we completed the Business Combination on July 12, 2017, it was not possible for us to conduct an assessment of the accounting acquirer's internal control over financial reporting in the period between the consummation date of the reverse acquisition and the date of management's assessment of internal control over financial reporting required by Item 308(a) of Regulation S-K. As such, in accordance with the guidance provided in Section 215.02 of the SEC's Compliance and Disclosure Interpretations, we have not included management's report on internal controls over financial reporting in this report. We will be required to provide such a report in our annual report for the year ending December 31, 2018.

**Off Balance Sheet Arrangements**

At December 31, 2017, we had no material off balance sheet arrangements, except for operating leases. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements. Our operating leases are composed of various office and industrial buildings, machinery, equipment, and vehicles. As of December 31, 2017, our total future minimum lease payments under non-cancelable operating leases were $129.6 million.

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## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

### Quantitative and Qualitative Disclosure About Market Risk

### Interest Rate Risk

At December 31, 2017, we had $1,350.0 million of debt outstanding, with a weighted average interest rate of 9.7585%. Interest is calculated under the terms of our credit agreement based on the greatest of certain specified base rates plus an applicable margin that varies based on certain factors. Assuming no change in the amount outstanding, the impact on interest expense of a 1% increase or decrease in the assumed weighted average interest rate would be approximately $13.5 million per year. In order to mitigate interest rate fluctuations with respect to term loan borrowings under the Credit Agreement, in November 2017, we entered into a three year, one-month LIBOR interest rate swap contract with a notional amount of $347.8 million, which is the remaining principal balance of the term loan. The swap contract will swap out the floating rate interest risk related to the LIBOR with a fixed interest rate of 1.9275% and will be effective on January 12, 2018.

The interest rate swap, which is used to manage our exposure to interest rate movements and other identified risks, was not designated as a hedge. As such, changes in the fair value of the derivative are recorded directly in earnings and were equal to $1.3 million for the year ended December 31, 2017.

### Foreign Currency Risk

We are exposed to foreign currency risks that arise from normal business operations. These risks include transaction gains and losses associated with intercompany loans with foreign subsidiaries and transactions denominated in currencies other than a location's functional currency. Contracts are denominated in currencies of major industrial countries.

### Market Risk

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. We do not use derivatives for trading purposes, to generate income or to engage in speculative activity.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The following financial statements and schedules are included herein:

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**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors
Exela Technologies, Inc.:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Exela Technologies, Inc. and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive loss, stockholders' deficit, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

KPMG LLP

We have served as the Company's auditor since 2013.

Dallas, Texas
March 16, 2018

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**Exela Technologies, Inc. and Subsidiaries**

**Consolidated Balance Sheets**

**For the years ended December 31, 2017 and 2016**

**(in thousands of United States dollars except share and per share amounts)**

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 39,000 | $ 8,361 |
| Restricted cash | 42,489 | 25,892 |
| Accounts receivable, net of allowance for doubtful accounts of $3,725 and $3,219 respectively | 229,704 | 138,421 |
| Inventories, net | 11,922 | 11,195 |
| Prepaid expenses and other current assets | 24,596 | 12,202 |
| **Total current assets** | **347,711** | **196,071** |
| Property, plant and equipment, net | 132,908 | 81,600 |
| Goodwill | 747,325 | 373,291 |
| Intangible assets, net | 464,984 | 298,739 |
| Deferred income tax assets | 9,019 | 9,654 |
| Other noncurrent assets | 12,891 | 10,131 |
| **Total assets** | **$ 1,714,838** | **$ 969,486** |
| **Liabilities and Stockholders' Equity (Deficit)** | | |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable | $ 81,263 | $ 42,212 |
| Related party payables | 14,445 | 9,344 |
| Income tax payable | 3,612 | 1,031 |
| Accrued liabilities | 104,485 | 29,492 |
| Accrued compensation and benefits | 46,925 | 31,200 |
| Customer deposits | 31,656 | 18,729 |
| Deferred revenue | 12,709 | 17,235 |
| Obligation for claim payment | 42,489 | 25,892 |
| Current portion of capital lease obligations | 15,611 | 6,507 |
| Current portion of long-term debt | 20,565 | 55,833 |
| **Total current liabilities** | **373,760** | **237,475** |
| Long-term debt, net of current maturities | 1,276,094 | 983,502 |
| Capital lease obligations, net of current maturities | 25,958 | 18,439 |
| Pension liability | 25,496 | 28,712 |
| Deferred income tax liabilities | 5,362 | 26,223 |
| Long-term income tax liability | 3,470 | 3,063 |
| Other long-term liabilities | 14,704 | 11,973 |
| **Total liabilities** | **1,724,844** | **1,309,387** |
| Commitment and Contingencies(Note 12) | | |
| **Stockholders' equity (deficit)** | | |
| Common stock, par value of $0.0001 per share; 1,600,000,000 shares authorized; 150,578,451 shares issued and 150,529,151 outstanding at December 31, 2017 and 64,024,557 shares issued and outstanding at December 31, 2016; | 15 | 6 |
| Preferred stock, par value of $0.0001 per share; 20,000,000 shares authorized and 6,194,233 shares issued and outstanding at December 31, 2017 and no shares issued or outstanding at December 31, 2016 | 1 | — |
| Additional paid in capital | 482,018 | (57,395) |
| Less: common stock held in treasury, at cost; 49,300 shares at December 31, 2017 and no shares at December 31, 2016 | (249) | — |
| Equity-based compensation | 34,085 | 27,342 |
| Accumulated deficit | (514,628) | (293,968) |
| Accumulated other comprehensive loss: | | |
| Foreign currency translation adjustment | (194) | (3,547) |
| Unrealized pension actuarial losses, net of tax | (11,054) | (12,339) |
| Total accumulated other comprehensive loss | (11,248) | (15,886) |
| **Total stockholders' deficit** | **(10,006)** | **(339,901)** |
| **Total liabilities and stockholders' deficit** | **$ 1,714,838** | **$ 969,486** |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**

**Consolidated Statement of Operations**

**For the years ended December 31, 2017, 2016 and 2015**

**(in thousands of United States dollars except share and per share amounts)**

| | Year ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| Revenue | $ 1,152,324 | $ 789,926 | $ 805,232 |
| Cost of revenue (exclusive of depreciation and amortization) | 829,143 | 519,121 | 559,846 |
| Selling, general and administrative expenses | 220,955 | 130,437 | 120,691 |
| Depreciation and amortization | 98,890 | 79,639 | 75,408 |
| Impairment of goodwill and other intangible assets | 69,437 | — | — |
| Related party expense | 33,431 | 10,493 | 8,977 |
| **Operating (loss) income** | **(99,532)** | **50,236** | **40,310** |
| **Other expense (income), net:** | | | |
| Interest expense, net | 128,489 | 109,414 | 108,779 |
| Loss on extinguishment of debt | 35,512 | — | — |
| Sundry expense, net | 2,295 | 712 | 3,247 |
| Other income, net | (1,297) | — | — |
| **Net loss before income taxes** | (264,531) | (59,890) | (71,716) |
| Income tax benefit | 60,246 | 11,787 | 26,812 |
| **Net loss** | **$ (204,285)** | **$ (48,103)** | **$ (44,904)** |
| Dividend equivalent on Series A Preferred Stock related to beneficial conversion feature | (16,375) | — | — |
| Cumulative dividends for Series A Preferred Stock | (2,489) | — | — |
| **Net loss attributable to common stockholders** | **$ (223,149)** | **$ (48,103)** | **$ (44,904)** |
| **Loss per share:** | | | |
| Basic and diluted | $ (2.08) | $ (0.75) | $ (0.70) |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**

**Consolidated Statements of Comprehensive Loss**

**For the years ended December 31, 2017, 2016 and 2015**

**(in thousands of United States dollars)**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **Net Loss** | **$ (204,285)** | **$ (48,103)** | **$ (44,904)** |
| **Other comprehensive income (loss), net of tax** | | | |
| Foreign currency translation adjustments | 3,353 | (132) | (1,990) |
| Unrealized pension actuarial gains (losses), net of tax | 1,285 | (7,263) | 3,655 |
| **Total other comprehensive loss, net of tax** | **$ (199,647)** | **$ (55,498)** | **$ (43,239)** |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Stockholders' Deficit**
**December 31, 2017, 2016 and 2015**
**(in thousands of United States dollars except share and per share amounts)**

| | Common Stock | | Preferred Stock | | Treasury Stock | | Additional Paid in Capital | Equity-Based Compensation | Accumulated Other Comprehensive Loss | | Accumulated Deficit | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | | |
| **Balances at January 1, 2015 (as previously reported)** | **144,400** | **$ —** | **—** | **$ —** | **—** | **$ —** | **$ (57,389)** | **$ 12,134** | **$ (1,425)** | **$ (8,731)** | **$ (200,961)** | **$ (256,372)** |
| Conversion of shares | **63,880,157** | **6** | **—** | **—** | **—** | **—** | **(6)** | **—** | **—** | **—** | **—** | **—** |
| **Balances at January 1, 2015, effect of reverse acquisition (*refer to Note 2*)** | **64,024,557** | **$ 6** | **—** | **$ —** | **—** | **$ —** | **$ (57,395)** | **$ 12,134** | **$ (1,425)** | **$ (8,731)** | **$ (200,961)** | **$ (256,372)** |
| Net loss January 1 to December 31, 2015 | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(44,904)** | **(44,904)** |
| Equity-based compensation | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **8,122** | **—** | **—** | **—** | **8,122** |
| Foreign currency translation adjustment | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(1,990)** | **—** | **—** | **(1,990)** |
| Net realized pension actuarial gains, net of tax | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **3,655** | **—** | **3,655** |
| **Balances at December 31, 2015** | **64,024,557** | **$ 6** | **—** | **—** | **—** | **$ —** | **$ (57,395)** | **$ 20,256** | **$ (3,415)** | **$ (5,076)** | **$ (245,865)** | **$ (291,489)** |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Stockholders' Deficit (Continued)**
**December 31, 2017, 2016 and 2015**
**(in thousands of United States dollars except share and per share amounts)**

| | Common Stock | | Preferred Stock | | Treasury Stock | | | | Accumulated Other Comprehensive Loss | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Additional Paid in Capital | Equity-Based Compensation | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | Accumulated Deficit | Total Stockholders' Deficit |
| **Balances at January 1, 2016** | **64,024,557** | **$ 6** | **—** | **—** | **—** | **—** | **$ (57,395)** | **$ 20,256** | **$ (3,415)** | **$ (5,076)** | **$ (245,865)** | **$ (291,489)** |
| Net loss January 1 to December 31, 2016 | — | — | — | — | — | — | — | — | — | — | **(48,103)** | **(48,103)** |
| Equity-based compensation | — | — | — | — | — | — | — | **7,086** | — | — | | **7,086** |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | **(132)** | — | — | **(132)** |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | **(7,263)** | — | **(7,263)** |
| **Balances at December 31, 2016** | **64,024,557** | **$ 6** | **—** | **—** | **—** | **—** | **$ (57,395)** | **$ 27,342** | **$ (3,547)** | **$ (12,339)** | **$ (293,968)** | **$ (339,901)** |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Stockholders' Deficit (Continued)**
**December 31, 2017, 2016 and 2015**
**(in thousands of United States dollars except share and per share amounts)**

| | Common Stock | | Preferred Stock | | Treasury Stock | | | Accumulated Other Comprehensive Loss | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Additional Paid in Capital | Equity-Based Compensation | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | Accumulated Deficit | Total Stockholders' Deficit |
| **Balances at January 1, 2017** | **64,024,557** | **$ 6** | **— $** | **—** | **— $** | **— $** | **(57,395)$** | **27,342 $** | **(3,547)$** | **(12,339)$** | **(293,968)$** | **(339,901)** |
| Net loss January 1 to December 31, 2017 | | | | | | | | | | | (204,285) | (204,285) |
| Equity-based compensation | | | | | | | | 6,743 | | | | 6,743 |
| Foreign currency translation adjustment | | | | | | | | | 3,353 | | | 3,353 |
| Net realized pension actuarial gains, net of tax | | | | | | | | | | 1,285 | | 1,285 |
| Merger recapitalization | 16,575,443 | 2 | | | | | 20,546 | | | | | 20,548 |
| Shares issued to acquire Novitex (*refer to Note 3*) | 30,600,000 | 3 | | | | | 244,797 | | | | | 244,800 |
| Issuance\Conversion of Quinpario shares | 12,093,331 | 1 | | | | | 22,358 | | | | | 22,359 |
| Sale of common shares at July 12, 2017 | 18,757,942 | 3 | | | | | 130,860 | | | | | 130,863 |
| Issuance of Series A Preferred Stock | — | — | 9,194,233 | 1 | | | 73,553 | | | | | 73,554 |
| Shares issued for advisory services and underwriting fees | 3,609,375 | — | | | | | 28,573 | | | | | 28,573 |
| Conversion of Series A Preferred Stock to common shares | 3,667,803 | — | (3,000,000) | — | | | — | | | | | — |
| Shares issued for HandsOn Global Management contract termination fee | 1,250,000 | | | | | | 10,000 | | | | | 10,000 |
| Equity issuance expenses | | | | | | | (7,649) | | | | | (7,649) |
| Adjustment for beneficial conversion feature of Series A Preferred Stock (*refer to Note 2*) | | | | | | | 16,375 | | | | (16,375) | — |
| Treasury stock purchases | (49,300) | | | | 49,300 | (249) | | | | | | (249) |
| **Balances at December 31, 2017** | **150,529,151** | **$ 15** | **6,194,233** | **$ 1** | **49,300** | **$ (249)$** | **482,018 $** | **34,085 $** | **(194)$** | **(11,054)$** | **(514,628)$** | **(10,006)** |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**

**For the years ended December 31, 2017, 2016 and 2015**

**(in thousands of United States dollars unless otherwise stated)**

| | Years ended December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net loss | $ (204,285) | $ (48,103) | $ (44,904) |
| Adjustments to reconcile net loss | | | |
| Depreciation and amortization | 98,890 | 79,639 | 75,408 |
| Fees paid in stock | 23,875 | — | — |
| HGM contract termination fee paid in stock | 10,000 | — | — |
| Original issue discount and debt issuance cost amortization | 12,280 | 13,684 | 12,974 |
| Loss on extinguishment of debt | 35,512 | — | — |
| Impairment of goodwill and other intangible assets | 69,437 | — | — |
| Provision (recovery) for doubtful accounts | 500 | 756 | 1,105 |
| Deferred income tax benefit | (66,723) | (15,729) | (27,177) |
| Share-based compensation expense | 6,743 | 7,086 | 8,122 |
| Foreign currency remeasurement | 1,382 | 193 | 150 |
| Gain on sale of Meridian | (588) | — | — |
| Loss on sale of property, plant and equipment | 987 | 2,245 | 632 |
| Fair value adjustment of swap derivative | (1,297) | — | — |
| Change in operating assets and liabilities, net of effect from acquisitions | | | |
| Accounts receivable | (4,832) | 20,801 | 11,583 |
| Prepaid expenses and other assets | 2,628 | 4,969 | 892 |
| Accounts payable and accrued liabilities | 52,953 | 5,544 | (28,644) |
| Related party payables | 4,907 | (2,427) | (2,703) |
| **Net cash provided by operating activities** | **42,369** | **68,658** | **7,438** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | (14,440) | (7,926) | (10,669) |
| Additions to internally developed software | (7,843) | (13,017) | (3,279) |
| Additions to outsourcing contract costs | (10,992) | (14,636) | (7,882) |
| Cash paid for TransCentra | — | — | (12,810) |
| Cash acquired in TransCentra acquisition | — | 3,351 | — |
| Proceeds from sale of Meridian | 4,582 | — | — |
| Cash acquired in Quinpario reverse merger | 91 | — | — |
| Cash paid in Novitex acquisition, net of cash received | (423,428) | — | — |
| Other acquisitions, net of cash received | (369) | — | — |
| Proceeds from sale of property, plant and equipment | 25 | 626 | 208 |
| **Net cash used in investing activities** | **(452,374)** | **(31,602)** | **(34,432)** |
| **Cash flows from financing activities** | | | |
| Change in bank overdraft | (210) | (1,331) | 938 |
| Proceeds from issuance of stock | 204,417 | — | — |
| Cash received from Quinpario | 27,031 | — | — |
| Repurchase of Common Stock | (249) | — | — |
| Proceeds from financing obligation | 3,116 | 5,429 | 5,554 |
| Contribution from Shareholders | 20,548 | — | — |
| Proceeds from new credit facility | 1,320,500 | — | — |
| Retirement of previous credit facilities | (1,055,736) | — | — |
| Cash paid for debt issuance costs | (39,837) | — | — |
| Cash paid for equity issue costs | (149) | — | — |
| Borrowings from revolver and swing-line loan | 72,600 | 53,700 | 157,400 |
| Repayments from revolver and swing line loan | (72,500) | (53,200) | (108,800) |
| Principal payments on long-term obligations | (39,316) | (47,853) | (33,474) |
| **Net cash provided by (used in) financing activities** | **440,215** | **(43,255)** | **21,618** |
| Effect of exchange rates on cash | 429 | (2,059) | (672) |
| **Net increase (decrease) in cash and cash equivalents** | **30,639** | **(8,258)** | **(6,048)** |
| Cash and cash equivalents | | | |
| Beginning of period | 8,361 | 16,619 | 22,667 |
| End of period | **$ 39,000** | **$ 8,361** | **$ 16,619** |
| **Supplemental cash flow data:** | | | |
| Income tax payments, net of refunds received | $ 5,711 | $ 3,771 | $ 1,784 |
| Interest paid | 69,622 | 96,166 | 87,302 |
| **Noncash investing and financing activities:** | | | |
| Assets acquired through capital lease arrangements | 6,973 | 11,925 | 6,021 |
| Leasehold improvements funded by lessor | 146 | 5,186 | 665 |
| Issuance of common stock as consideration for Novitex | 244,800 | — | — |
| Accrued capital expenditures | 1,621 | 580 | 878 |
| Dividend equivalent on Series A Preferred Stock | 16,375 | — | — |
| Liability assumed of Quinpario | 4,672 | — | — |

The accompanying notes are an integral part of these consolidated financial statements.

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**1. Description of the Business**

**Organization**

Exela Technologies, Inc. (the "Company" or "Exela") is a global provider of transaction processing solutions, enterprise information management, document management and digital business process services. The Company provides mission-critical information and transaction processing solutions services to customers across three major industry segments: (1) Information & Transaction Processing, (2) Healthcare Solutions, and (3) Legal and Loss Prevention Services. The Company manages information and document driven business processes and offers solutions and services to fulfill specialized knowledge-based processing and consulting requirements, enabling customers to concentrate on their core competencies. Through its outsourcing solutions, the Company enables businesses to streamline their internal and external communications and workflows.

The Company was originally incorporated in Delaware on July 15, 2014 as a special purpose acquisition company under the name Quinpario Acquisition Corp 2 ("Quinpario") for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination involving Quinpario and one or more businesses or entities. On July 12, 2017 (the "Closing"), the Company consummated its business combination with SourceHOV Holdings, Inc. ("SourceHOV") and Novitex Holdings, Inc. ("Novitex") pursuant to the Business Combination Agreement and Consent, Waiver and Amendment to the Business Combination Agreement, dated February 21, 2017 and June 15, 2017, respectively (the "Business Combination"). In connection with the Closing, the Company changed its name from Quinpario Acquisition Corp 2 to Exela Technologies, Inc. Unless the context otherwise requires, the "Company" refers to the combined company and its subsidiaries following the Business Combination, "Quinpario" refers to the Company prior to the closing of the Business Combination, "SourceHOV" refers to SourceHOV prior to the Business Combination and "Novitex" refers to Novitex prior to the Business Combination. *Refer to Note 3* for further discussion of the Business Combination.

**2. Basis of Presentation and Summary of Significant Accounting Policies**

The following is a summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements.

**Basis of Presentation**

The accompanying consolidated financial statements and related notes to the consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") and in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). The consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of the Company's management, necessary for the fair presentation of the results of operations for the periods.

The Business Combination has been accounted for as a reverse merger in accordance with U.S. GAAP. For accounting purposes, SourceHOV was deemed to be the accounting acquirer, Quinpario was the legal acquirer, and Novitex is considered the acquired company. In conjunction with the Business Combination, outstanding shares of SourceHOV were converted into Common Stock of the Company, par value $0.0001 per share, shown as a recapitalization, and the net assets of Quinpario were acquired at historical cost, with no goodwill or other intangible assets recorded. The consolidated assets and liabilities as of December 31, 2016, and results of operations for the years ended December 31, 2016 and 2015 are those of SourceHOV. Quinpario's assets and liabilities, which include net cash from the trust of $27.0 million and accrued fees payable of $4.8 million, and results of operations are consolidated with SourceHOV beginning on the Closing. The shares and corresponding capital amounts and earnings per share available to holders of the Company's Common Stock, prior to

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the Business Combination, have been retroactively restated as shares reflecting the exchange ratio established in the Business Combination. The presented financial information for the year ended December 31, 2017 includes the financial information and activities for SourceHOV for the period January 1, 2017 to December 31, 2017 (365 days) as well as the financial information and activities of Novitex for the period July 13, 2017 to December 31, 2017 (172 days).

**Principles of Consolidation**

The accompanying consolidated financial statements and related notes to the consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In addition, the Company evaluates its relationships with other entities to identify whether they are variable interest entities as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810-10, Consolidation and whether the Company is the primary beneficiary. Consolidation is required if both of these criteria are met.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgments relied upon in preparing these consolidated financial statements include revenue recognition for multiple element arrangements, allowance for doubtful accounts, income taxes, depreciation, amortization, employee benefits, equity-based compensation, contingencies, goodwill, intangible assets, fair value of assets and liabilities acquired in acquisitions, and asset and liability valuations. The Company regularly assesses these estimates and records changes in estimates in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that the Company believes to be reasonable under the circumstances. Actual results could differ from those estimates.

**Segment Reporting**

The Company consists of the following three segments:

*1. Information & Transaction Processing Solutions ("ITPS").* ITPS provides industry-specific solutions for banking and financial services, including lending solutions for mortgages and auto loans, and banking solutions for clearing, anti-money laundering, sanctions, and interbank cross-border settlement; property and casualty insurance solutions for origination, enrollments, claims processing, and benefits administration communications; public sector solutions for income tax processing, benefits administration, and record management; industry-agnostic solutions for payment processing and reconciliation, integrated receivables and payables management, document logistics and location services, records management and electronic storage of data, documents; and software, hardware, professional services and maintenance related to information and transaction processing automation, among others.

*2. Healthcare Solutions ("HS").* HS offerings include revenue cycle solutions, integrated accounts payable and accounts receivable, and information management for both the healthcare payer and provider markets. Payer service offerings include claims processing, claims adjudication and auditing services, enrollment processing and policy management, and scheduling and prescription management. Provider service offerings include medical coding and insurance claim generation, underpayment audit and recovery, and medical records management.

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*3. Legal and Loss Prevention Services ("LLPS").* LLPS solutions include processing of legal claims for class action and mass action settlement administrations, involving project management support, notification and outreach to claimants, collection, analysis and distribution of settlement funds. Additionally, LLPS provides data and analytical services in the context of litigation consulting, economic and statistical analysis, expert witness services, and revenue recovery services for delinquent accounts receivable.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash deposited with financial institutions and liquid investments with original maturity dates equal to or less than three months. All bank deposits and money market accounts are considered cash and cash equivalents. The Company holds cash and cash equivalents at major financial institutions, which often exceed Federal Deposit Insurance Corporation insured limits. Historically, the Company has not experienced any losses due to such bank depository concentration.

Certificates of deposit and fixed deposits whose original maturity is greater than three months and is one year or less are classified as short-term investments and certificates of deposit and fixed deposits whose maturity is greater than one year at the balance sheet date are classified as non-current assets in the consolidated balance sheets. The purchase of any certificates of deposit or fixed deposits that are classified as short-term investments or non-current assets appear in the investing section of the consolidated statements of cash flows.

**Restricted Cash**

As part of the Company's legal claims processing service, the Company holds cash for various settlement funds once the fund is in the wind down stage and claims have been paid. The cash is used to pay tax obligations and other liabilities of the settlement funds. The Company has recorded an offsetting liability for the settlement funds received, which is included in Obligation for claim payment in the consolidated balance sheets of $42.5 million and $25.9 million at December 31, 2017 and December 31, 2016, respectively. Of the total amount of settlement funds received, $22.9 million and $17.1 million were not subject to legal restrictions on use as of December 31, 2017 and December 31, 2016, respectively.

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are carried at the original invoice amount less an estimate made for doubtful accounts. Revenue that has been earned but remains unbilled at the end of the period is recorded as a component of accounts receivable, net. The Company specifically analyzes accounts receivable and historical bad debts, customer credit-worthiness, current economic trends, and changes in customer payment terms and collection trends when evaluating the adequacy of its allowance for doubtful accounts. The Company writes off accounts receivable balances against the allowance for doubtful accounts, net of any amounts recorded in deferred revenue, when it becomes probable that the receivable will not be collected.

**Inventories**

Inventories are valued using the lower of cost and net realizable value method and include the cost of raw materials, labor, and purchased subassemblies. Cost is determined using the weighted average method. Net Inventory as of December 31, 2017 and 2016 were $11.9 million and $11.2 million, respectively.

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**Property, Plant and Equipment**

Property, plant, and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method (which approximates the use of the assets) over the estimated useful lives of the assets. When these assets are sold or otherwise disposed of, the asset and related depreciation is relieved, and any gain or loss is included in the consolidated statements of operations for the period of sale or disposal. Leasehold improvements are amortized over the lease term or the useful life of the asset, whichever is shorter. Assets under capital leases are amortized over the lease term unless ownership is transferred by the end of the lease or there is a bargain purchase option, in which case assets are amortized normally on a straight-line basis over the useful life that would be assigned if the assets were owned. The amortization of these capital lease assets is recorded in depreciation expense in the consolidated statements of operations. Repair and maintenance costs are expensed as incurred.

**Intangible Assets**

*Customer Relationships*

Customer relationship intangible assets represent customer contracts and relationships obtained as part of acquired businesses. Customer relationship values are estimated by evaluating various factors including historical attrition rates, contractual provisions and customer growth rates, among others. The estimated average useful lives of customer relationships range from 4 to 16 years depending on facts and circumstances. These intangible assets are primarily amortized based on undiscounted cash flows. The Company evaluates the remaining useful life of intangible assets on an annual basis to determine whether events and circumstances warrant a revision to the remaining useful life.

*Trade Names*

The Company has determined that its trade name intangible assets are indefinite-lived assets and therefore are not subject to amortization. The Company performed a quantitative analysis as part of the annual impairment test on October 1, 2017, and recorded an impairment charge. Subsequently, late in the fourth quarter of 2017, the Company implemented a strategy to transition to a unified Exela brand beginning in 2018. As a result, the Company performed a quantitative analysis as of December 31, 2017, and recorded another impairment charge. The Company's valuation of trade names at the reporting unit level utilizes the Relief-from-Royalty method that represents the present value of the future economic benefits generated by ownership of the trade names and approximates the amount that the Company would have to pay as a royalty to a third party to license such names.

*Trademarks*

The Company has determined that its trademark intangible assets resulting from acquisitions are definite-lived assets and therefore are subject to amortization. The Company has historically amortized trademarks on a straight-line basis over the estimated useful life, which is typically 10 years. As part of the impairment analysis completed as of December 31, 2017, and due to the Company's strategy to transition to a unified Exela brand beginning in 2018, the Company reduced the estimated useful lives of its trademarks and will amortize the trademarks over a one year period.

*Developed Technology*

The Company has various developed technologies embedded in its technology platform. Developed technology is an integral asset to the Company in providing solutions to customers and is recorded as an intangible asset. The Company amortizes developed technology on a straight-line basis over the estimated useful life, which is typically 5-8.5 years.

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*Capitalized Software Costs*

The Company capitalizes certain costs incurred to develop software products to be sold, leased or otherwise marketed after establishing technological feasibility in accordance with ASC section 985-20, Software—Costs of Software to Be Sold, Leased, or Marketed, and the Company capitalizes costs to develop or purchase internal-use software in accordance with ASC section 350-40, Intangibles—Goodwill and Other—Internal-Use Software. Significant estimates and assumptions include determining the appropriate period over which to amortize the capitalized costs based on estimated useful lives and estimating the marketability of the commercial software products and related future revenues. The Company amortizes capitalized software costs on a straight-line basis over the estimated useful term, which is typically 1-5 years.

*Outsourced Contract Costs*

Costs of outsourcing contracts, including costs incurred for bid and proposal activities, are generally expensed as incurred. However, certain costs incurred upon initiation of an outsourcing contract are deferred and expensed on a straight-line basis over the estimated contract term. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or transition activities and can be separated into two principal categories: contract commissions and transition/set-up costs. Examples of such capitalized costs include hourly labor and related fringe benefits and travel costs.

*Non-compete Agreements*

The Company acquired certain non-compete agreements in connection with the Business Combination. These were related to four Novitex executives that were terminated following the acquisition. The Company has determined that the agreements have a definite useful life of one year.

**Impairment of Indefinite-Lived Assets**

The Company conducts its annual indefinite-lived assets impairment tests on October 1st of each year for its indefinite-lived trade names, or more frequently if indicators of impairment exist. When performing the impairment test, the Company has the option of performing a qualitative or quantitative assessment to determine if an impairment has occurred. A quantitative assessment requires comparison of fair value of the asset to its carrying value. The Company utilizes the Income Approach, specifically the Relief-from-Royalty method, which has the basic tenet that a user of that intangible asset would have to make a stream of payments to the owner of the asset in return for the rights to use that asset. *Refer to Note 7—Intangibles Assets and Goodwill* for additional discussion of impairment of trade names.

**Impairment of Long-Lived Assets**

The Company reviews the recoverability of its long-lived assets, including finite-lived trade names, trademarks, customer relationships, developed technology, capitalized software costs, outsourced contract costs and property, plant and equipment, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The primary measure of fair value is based on discounted cash flows based in part on the financial results and the expectation of future performance.

The Company did not record any material impairment related to its property, plant, and equipment, customer relationships, trademarks, developed technology, capitalized software, or outsourced contract costs for the years ended December 31, 2017, 2016, and 2015.

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**Goodwill**

Goodwill represents the excess purchase price over tangible and intangible assets acquired less liabilities assumed arising from business combinations. Goodwill is generally allocated to reporting units based upon relative fair value (taking into consideration other factors such as synergies) when an acquired business is integrated into multiple reporting units. The Company's reporting units are at the operating segment level, which discrete financial information is prepared and regularly reviewed by management. When a business within a reporting unit is disposed of, goodwill is allocated to the disposed business using the relative fair value method.

The Company conducts its annual goodwill impairment tests on October 1st of each year, or more frequently if indicators of impairment exist. When performing the annual impairment test, the Company has the option of performing a qualitative or quantitative assessment to determine if an impairment has occurred. If a qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company would be required to perform a quantitative impairment analysis for goodwill. The quantitative analysis requires a comparison of fair value of the reporting unit to its carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The Company uses a combination of the Guideline Public Company Method of the Market Approach and the Discounted Cash Flow Method of the Income Approach to determine the reporting unit fair value. *Refer to Note 7—Intangibles Assets and Goodwill* for additional discussion of impairment of goodwill.

**Derivative Instruments and Hedging Activities**

As required by ASC 815—Derivatives and Hedging, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

The Company's objective in using interest rate derivatives is to manage its exposure to variable interest rates related to its term loan under the Credit Agreement. In order to accomplish this objective, in November 2017, the Company entered into a three year, one-month LIBOR interest rate contract with a notional amount of $347.8 million. The contract will mitigate the variable interest rate risk related to the LIBOR with a fixed interest rate paid semi-annually starting January 12, 2018.

The following table summarizes the Company's interest rate swap positions as of December 31, 2017:

| | | December 31, 2017 | |
|---|---|---|---|
| Effective date | Maturity date | (In Millions) Notional Amount | Weighted Average Interest Rate |
| 1/12/2018 | 1/12/2021 | $ 347.8 | 1.9725% |

The interest rate swap, which is used to manage the Company's exposure to interest rate movements and other identified risks, was not designated as a hedge. As such, the change in the fair value of the derivative is recorded directly in earnings and was $1.3 million for the year ended December 31, 2017.

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**Benefit Plan Accruals**

The Company has defined benefit plans in the U.K and Germany, under which participants earn a retirement benefit based upon a formula set forth in the plan. The Company records expense related to this plan using actuarially determined amounts that are calculated under the provisions of ASC 715, Compensation—Retirement Benefits. Key assumptions used in the actuarial valuations include the discount rate, the expected rate of return on plan assets and the rate of increase in future compensation levels. *Refer to Note 11—Employee Benefit Plans*.

**Leases**

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under a capital lease are initially recognized as assets of the Company at their fair value at the inception of the lease, or if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the other long-term obligations in the consolidated balance sheets. Operating lease payments are initially recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed.

**Stock-Based Compensation**

The Company accounts for stock based compensation in accordance with ASC 718, Compensation- Stock Compensation. ASC 718 requires generally that all equity awards be accounted for at their "fair value." This fair value is measured at the fair value of value of the awards at the grant date and recognized as compensation expense on a straight-line basis over the vesting period. The fair value of the awards on the grant date is determined using the Enterprise Value model. The expense resulting from share-based payments is recorded in general and administrative expense in the accompanying consolidated statements of operations. *Refer to Note 14—Stock-Based Compensation*.

**Revenue Recognition**

The majority of the Company's revenues are comprised of: (1) ITPS, (2) HS offerings, (3) LLPS solutions, and (4) some combination thereof. Revenue is realized or realizable and earned when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectability is probable. Delivery does not occur until services have been provided to the customer, risk of loss has transferred to the customer, and either customer acceptance has been obtained, customer acceptance provisions have lapsed, or the Company has objective evidence that the criteria specified in the customer acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved.

ITPS revenues are primarily generated under service arrangements from a transaction-based pricing model for the various types of volumes processed, licensing and maintenance fees for technology sales, and a mix of fixed management fee and transactional revenue for document logistics and location services. HS revenues are primarily generated under service arrangements from a transaction-based pricing model for the various types of volumes processed for healthcare payers and providers. LLPS revenues are primarily based on a time and materials pricing as well as through transactional services priced on a per item basis.

If a contract involves the provision of a single element, revenue is generally recognized when the product or service is provided and the amount earned is not contingent upon any future event. Revenue from time and materials arrangements is recognized as the services are performed.

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Sales commissions determined to be incremental direct costs incurred related to the successful acquisition of new customer revenues are deferred and amortized over the length of the initial contract period.

The Company records deferred revenue when it receives payments or invoices in advance of the delivery of products or the performance of services. The deferred revenue is recognized into earnings when underlying performance obligations are achieved.

The Company includes reimbursements from customers, such as postage costs, in revenue, while the related costs are included in cost of revenue in the consolidated statement of operations.

*Multiple Element Arrangements*

Certain of the Company's revenue is generated from multiple element arrangements involving various combinations. The deliverables within these arrangements are evaluated at contract inception to determine whether they represent separate units of accounting, and if so, contract consideration is allocated to each deliverable based on relative selling price. The relative selling price of each deliverable within these arrangements is determined using vendor specific objective evidence ("VSOE") of fair value, third-party evidence or best estimate of selling price. Revenue is then recognized in accordance with the appropriate revenue recognition guidance applicable to the respective elements.

If the multiple element arrangements criteria are not met, the arrangement is accounted for as one unit of accounting which would result in revenue being recognized on a straight-line basis over the period of delivery or being deferred until the earlier of when such criteria are met or when the last element is delivered.

**Research and Development**

Research and development costs are expensed as incurred. Research and development costs expensed for the years ended December 31, 2017, 2016, and 2015 were $2.3 million, $2.3 million, and $1.7 million, respectively.

**Advertising**

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2017, 2016, and 2015, were $0.7 million, $1.1 million, and $0.8 million, respectively.

**Income Taxes**

The Company accounts for income taxes by using the asset and liability method. The Company accounts for income taxes regarding uncertain tax positions and recognized interest and penalties related to uncertain tax positions in income tax benefit/ (expense) in the consolidated statements of operations.

Deferred income taxes are recognized on the tax consequences of temporary differences by applying enacted statutory tax rates applicable in future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, as determined under tax laws and rates. A valuation allowance is provided when it is more likely than not that all or some portion of the deferred tax assets will not be realized. Due to numerous ownership changes, the Company is subject to limitations on existing net operating losses under Section 382 of the Internal Revenue Code (the Code). Accordingly, valuation allowances have been established against a portion of the net operating losses to reflect estimated Section 382 limitations. The Company also considered the realizability of net operating losses not limited by Section 382. The Company did not consider future book income as a source of taxable income when assessing if a portion of the deferred tax assets are more likely than not to be realized. However, scheduling the reversal of existing deferred tax liabilities

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indicated that only a portion of the deferred tax assets are likely to be realized. Therefore, partial valuation allowances were established against a portion of the Company's deferred tax assets. In the event the Company determines that it would be able to realize deferred tax assets that have valuation allowances established, an adjustment to the deferred tax assets would be recognized as component of income tax expense through continuing operations.

The Company engages in transactions (i.e. acquisitions) in which the tax consequences may be subject to uncertainty and examination by the varying taxing authorities. Significant judgment is required by the Company in assessing and estimating the tax consequences of these transactions. While the Company's tax returns are prepared and based on the Company's interpretation of tax laws and regulations, in the normal course of business the tax returns are subject to examination by the various taxing authorities. Such examinations may result in future assessments of additional tax, interest and penalties. For purposes of the Company's income tax provision, a tax benefit is not recognized if the tax position is not more likely than not to be sustained based solely on its technical merits. Considerable judgment is involved in determining which tax positions are more likely than not to be sustained. *Refer to Note 10—Income Taxes* for further information.

**Loss Contingencies**

The Company reviews the status of each significant matter, if any, and assess its potential financial exposure considering all available information including, but not limited to, the impact of negotiations, settlements, rulings, advice of legal counsel and other updated information and events pertaining to a particular matter. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to loss contingencies, accruals are based only on the best information available at the time. As additional information becomes available, the Company reassesses the potential liability related to its pending claims and litigation, and may revise its estimates. These revisions in the estimates of the potential liabilities could have a material impact on the results of operations and financial position. The Company's liabilities exclude any estimates for legal costs not yet incurred associated with handling these matters.

**Operations**

A portion of the Company's labor and operations is situated outside of the United States in India and other locations. The carrying value of long-lived assets that are situated outside of the United States is approximately $26.2 million and $26.3 million as of December 31, 2017 and 2016, respectively.

**Foreign Currency Translation**

The functional currency for the Company's production operations located in India, Philippines, China, and Mexico is the United States dollar. Included in other expense as "Sundry expense (income), net" in the consolidated statements of operations are net exchange losses of $2.3 million, $0.7 million, and $3.2 million for the years ended December 31, 2017, 2016, and 2015, respectively.

The Company has determined all other international subsidiaries' functional currency is the local currency. These assets and liabilities are translated at exchange rates in effect at the balance sheet date while income and expense amounts are translated at average exchange rates during the period. The resulting foreign currency translation adjustments are disclosed as a separate component of other comprehensive loss.

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**Beneficial Conversion Feature**

The Company's Series A Perpetual Convertible Preferred Stock, par value $0.0001 per share (the "Series A Preferred Stock") contains a beneficial conversion feature, which arises when a debt or equity security is issued with an embedded conversion option that is beneficial to the investor or in the money at inception because the conversion option has an effective strike price that is less than the market price of the underlying stock at the commitment date. The Company recognized the beneficial conversion feature by allocating the intrinsic value of the conversion option, which is the number of shares of Common Stock available upon conversion multiplied by the difference between the effective conversion price per share and the fair value of Common Stock per share on the commitment date, to additional paid-in capital, resulting in a discount on the Series A Preferred Stock. As a result of the occurrence of events meeting the definition of a "Fundamental Change" as defined in the Certificate of Designations, Preferences, Rights and Limitations of Series A Perpetual Convertible Preferred Stock of the Company during the period, the Company recognized the entire dividend equivalent of $16.4 million as of December 31, 2017.

**Net Loss per Share**

Earnings per share ("EPS") is computed by dividing net loss available to holders of the Company's Common Stock by the weighted average number of shares of Common Stock outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock, using the more dilutive of the two-class method or if-converted method in periods of earnings. The two class method is an earnings allocation method that determines earnings per share for Common Stock and participating securities. As the Company experienced net losses for the periods presented, the impact of participating Series A Preferred Stock was calculated based on the if-converted method. Diluted EPS excludes all dilutive potential of shares of Common Stock if their effect is anti-dilutive.

For the year ended December 31, 2017, shares of the Company's Series A Convertible Preferred Stock ("Series A Preferred Stock"), if converted would have resulted in an additional 7,573,066 shares of Common Stock outstanding, but were not included in the computation of diluted loss per share as their effects were anti-dilutive.

The Company has not included the effect of 35,000,000 warrants sold in the Quinpario Initial Public Offering ("IPO") in the calculation of net income (loss) per share. Warrants are considered anti-dilutive and excluded when the exercise price exceeds the average market value of the Company's Common Stock price during the applicable period.

The components of basic and diluted EPS are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Net loss attributable to common stockholders (A) | $ (223,149) | $ (48,103) | $ (44,904) |
| Weighted average common shares outstanding—basic and diluted (B) | 107,068,262 | 64,024,557 | 64,024,557 |
| **Loss Per Share:** | | | |
| Basic and diluted (A/B) | $ (2.08) | $ (0.75) | $ (0.70) |

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**Business Combinations**

The Company includes the results of operations of the businesses acquired as of the respective dates of acquisition. The Company allocates the fair value of the purchase price of acquisitions to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value of the purchase price over the fair values of these identifiable assets and liabilities is recorded as goodwill.

**Fair Value Measurements**

The Company records the fair value of assets and liabilities in accordance with ASC 820, *Fair Value Measurement* ("ASC 820"). ASC 820 defines fair value as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

In addition to defining fair value, ASC 820 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1—quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2—quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3—unobservable inputs reflecting Management's own assumptions about the inputs used in pricing the asset or liability at fair value.

*Refer to Note 13—Fair Value Measurement* for further discussion.

**Recently Adopted Accounting Pronouncements**

Effective January 1, 2017, the Company adopted Accounting Standards Update ("ASU") no. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. This amendment replaced the method of measuring inventories at lower of cost or market with a lower of cost and net realizable value method. The adoption had no material impact on the Company's financial position, results of operations and cash flows.

Effective January 1, 2017, the Company adopted ASU no. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09)*. The ASU changes how companies account for certain aspects of equity-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The standard requires that all tax effects related to share-based payments be recorded as income tax expense or benefit in the income statement at settlement or expiration and, accordingly, excess tax benefits and tax deficiencies be presented as operating activities in the statement of cash flows. Upon adoption of this standard, the Company elected to continue its current practice of estimating expected forfeitures. The adoption had no material impact on the Company's financial position, results of operations and cash flows.

In January 2017, the FASB issued ASU no. 2017-04, *Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates Step 2 of the goodwill impairment test that had required a hypothetical purchase price allocation. Rather, entities should apply the same

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impairment assessment to all reporting units and recognize an impairment loss for the amount by which a reporting unit's carrying amount exceeds its fair value, without exceeding the total amount of goodwill allocated to that reporting unit. Entities will continue to have the option to perform a qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The Company early adopted ASU 2017-04 as of October 1, 2017. The Company conducted its annual impairment test for 2017 and recorded an impairment loss for goodwill under the provisions of ASU 2017-04.

**Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued ASU no. 2014-09, *Revenue from Contracts with Customers (ASC 606)*. Under the update, revenue will be recognized based on a five-step model. The core principle of the model is that revenue will be recognized when the transfer of promised goods or services to customers is made in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Subsequent updates have been issued primarily to provide implementation guidance related to the initial guidance issued in May 2014. The guidance is effective for annual reporting periods beginning after December 15, 2017 and may be adopted using either (a) a full retrospective method, whereby comparative periods would be restated to present the impact of the new standard, with the cumulative effect of applying the standard recognized as of the earliest period presented, or (b) a modified retrospective method, under which comparative periods would not be restated and the cumulative effect of applying the standard would be recognized at the date of initial adoption, January 1, 2018. The Company is adopting this standard in the first quarter of fiscal 2018 and will use the modified retrospective approach. The Company is evaluating the impact of the new revenue recognition standard and has assigned internal resources and engaged a third party service provider to assist in its evaluation. As part of its preliminary evaluation, the Company is assessing the impact of capitalizing and amortizing incremental costs associated with obtaining and fulfilling customer contracts, specifically set-up costs and commission and incentive payments. Under the updated guidance, the Company anticipates that these payments will be deferred on the Company's consolidated balance sheets and amortized over the estimated useful life which can include anticipated renewals of the original contract. Currently, these payments are deferred and amortized over the contract term. The Company also currently believes ASC 606 will impact the Company's accounting for arrangements that include variable consideration and multiple performance obligations. While the Company continues to assess the potential impacts of the new standard, including the areas described above, it does not know or cannot reasonably estimate quantitative information related to the impact of the new standard on its consolidated financial statements and related notes.

In February 2016, the FASB issued ASU no. 2016-02, *Leases (842)* This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Since the issuance of the original standard, the FASB has issued a subsequent update that provides a practical expedient for land easements (ASU 2018-01). The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years and early application is permitted. The Company is currently evaluating the impact that adopting this standard will have on the consolidated financial statements.

In June 2016, the FASB issued ASU no. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* to replace the incurred loss impairment methodology under current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in

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the amortized cost basis of the securities. The standard will be effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2016, the FASB issued ASU no. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Topic 230)*, which adds or clarifies guidance on the presentation and classification of eight specific types of cash receipts and cash payments in the statement of cash flows such as debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees, with the intent of reducing diversity in practice. For public entities, ASU 2016-15 is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2017 and interim periods within those fiscal years. Entities must apply the guidance retrospectively to all periods presented unless retrospective application is impracticable. The Company is adopting this standard in the first quarter of fiscal 2018 and is currently evaluating the impact that adopting this standard will have on the consolidated financial statements.

In October 2016, the FASB issued ASU no. 2016-16*, Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory (Topic 740)*, which eliminates the current prohibition on immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory, with the intent of reducing complexity and diversity in practice. Under ASU 2016-16, entities must recognize the income tax consequences when the transfer occurs rather than deferring recognition. For public entities, ASU 2016-16 is effective for fiscal years beginning after December 15, 2017 including interim reporting periods within those annual periods. Entities must apply the guidance on a modified retrospective basis though a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. The Company is adopting this standard in the first quarter of fiscal 2018 and is currently evaluating the impact that adopting this standard will have on the consolidated financial statements.

In November 2016, the FASB issued ASU no. 2016-18, *Statement of Cash Flows: Restricted Cash* (Topic 230). The ASU addresses diversity in practice that exists in the classification and presentation of changes in restricted cash and requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The ASU is effective beginning after December 15, 2017, and interim periods within those fiscal years. The Company is adopting this standard in the first quarter of fiscal 2018 and is currently evaluating the impact that adopting this standard will have on the consolidated financial statements.

In January 2017, the FASB issued ASU no. 2017-01, *Business Combinations: Clarifying the Definition of a Business (Topic 805)*. The ASU clarifies the definition of a business and provides guidance on evaluating as to whether transactions should be accounted for as acquisitions (or disposals) of assets or business combinations. The definition clarification as outlined in this ASU affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments of the ASU are effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company is adopting this standard in the first quarter of fiscal 2018 and would apply this standard for business combinations consummated subsequent to January 1, 2018.

In March 2017, the FASB issued ASU no. 2017-07, *Compensation Retirement Benefits (Topic 715); Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments to this ASU require the service cost component of net periodic benefit cost be reported in the same income statement line or lines as other compensation costs for employees. The other components of net periodic benefit cost are required to be reported separately from service costs and

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outside a subtotal of income from operations. Only the service cost component is eligible for capitalization. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The amendments should be applied retrospectively for the income statement presentations and prospectively for the capitalization of service costs. The Company is adopting this standard in the first quarter of fiscal 2018 and is currently evaluating the impact that adopting this standard will have on the consolidated financial statements.

In May 2017, the FASB issued ASU no. 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The amendments in this update will be applied on a prospective basis to an award modified on or after the adoption date. The Company is adopting this standard in the first quarter of fiscal 2018.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating *Topic 480, Distinguishing Liabilities from Equity*, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815); Targeted Improvements to Accounting for Hedging Activities. The amendments in this ASU better align the risk management activities and financial reporting for these hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

**Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents and trade receivables. The Company maintains its cash and cash equivalents and certain other financial instruments with highly rated financial institutions and limits the amount of credit exposure with any one financial institution. From time to time, the Company assesses the credit worthiness of its customers. Credit risk on trade receivables is minimized because of the large number of entities comprising the Company's customer base and their dispersion across many industries and geographic areas. The Company generally has not experienced any material losses related to receivables from any individual customer or groups of customers. The Company does not require collateral. Due to these factors, no additional credit risk beyond amounts provided for

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collection losses is believed by management to be probable in the Company's accounts receivable, net. The Company does not have any significant customers that account for 10% or more of the total consolidated revenues.

**3. Business Combinations**

On July 12, 2017, the Company consummated its business combination with SourceHOV and Novitex pursuant to the Business Combination Agreement and Consent, Waiver and Amendment to the Business Combination Agreement, dated February 21, 2017 and June 15, 2017, respectively. In connection with the Business Combination, the Company acquired debt facilities and issued notes totaling $1.4 billion *(refer to Note 9—Long Term Debt and Credit Facilities)*. Proceeds from the acquired debt were used to refinance the existing debt of SourceHOV, settle the outstanding debt of Novitex, and pay fees and expenses incurred in connection with the Business Combination. Immediately following the Business Combination, there were 146,910,648 shares of Common Stock, 9,194,233 shares of Series A Preferred Stock, and 35,000,000 warrants outstanding. *Refer to Note 15—Stockholders' Equity*.

Under ASC 805, *Business Combinations*, SourceHOV was deemed the accounting acquirer based on the following predominate factors: its former owners have the largest portion of voting rights in the Company, the board and Management has more individuals coming from SourceHOV than either Quinpario or Novitex, SourceHOV was the largest entity by revenue and by assets, and the headquarters was moved to the SourceHOV headquarters location.

The Company acquired 100% of the equity of Novitex pursuant to the Business Combination Agreement by issuing 30,600,000 shares of Common Stock of Exela to Novitex Parent, L.P., the sole stockholder of Novitex. Total value of equity for the transaction was $244.8 million. Additionally, as noted, the Company used proceeds from acquired debt to settle the outstanding debt of Novitex in the amount of $420.5 million, and pay transaction related costs and interest on behalf of Novitex in the amount of $10.3 million and $1.0 million, respectively, which was accounted for as part of consideration.

The acquired assets and assumed liabilities of Novitex were recorded at their estimated fair values. The purchase price allocation for the Novitex business combination is preliminary and subject to change within the respective measurement period which will not extend beyond one year from the acquisition date. Measurement period adjustments will be recognized in the reporting period in which the adjustment amounts are determined.

The following table summarizes the consideration paid for Novitex and the fair value of the assets acquired and liabilities assumed at the acquisition date on July 12, 2017. Certain estimated values for the acquisition, including goodwill, intangible assets, property, plant and equipment, and deferred income taxes, are not yet finalized and are subject to revision as additional information becomes available and more detailed analyses are completed. The purchase price was allocated based on information available at acquisition date. During the fourth quarter of 2017, the Company recorded

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measurement period adjustments which increased goodwill by $0.9 million, primarily related to updated information related to income taxes.

| | |
|---|---|
| **Assets acquired:** | |
| Cash and equivalents | $ 8,428 |
| Accounts receivable | 87,474 |
| Inventory | 1,245 |
| Prepaid expenses & other | 13,974 |
| Property, plant and equipment, net | 60,657 |
| Identifiable intangible assets, net | 251,060 |
| Deferred charges and other assets | 2,723 |
| Other noncurrent assets | 93 |
| Goodwill | 406,060 |
| Total identifiable assets acquired | $ 831,714 |
| **Liabilities assumed:** | |
| Accounts payable | (29,444) |
| Short-term borrowings and current portion of long-term debt | (11,335) |
| Accrued liabilities | (30,432) |
| Advanced billings and customer deposits | (18,926) |
| Long term debt | (15,704) |
| Deferred taxes | (46,991) |
| Other liabilities | (2,226) |
| Total liabilities assumed | $ (155,058) |
| Total consideration | $ 676,656 |

The identifiable intangible assets include customer relationships, non-compete agreements, internally developed software, and a trademark. Customer relationships and non-compete agreements were valued using the Income Approach, specifically the Multi-Period Excess Earnings method. The trademark was valued using the Income Approach, specifically the Relief-from-Royalty method. Internally developed software was valued based on costs incurred related to Connect Platform. All of these intangibles acquired represent a Level 3 measurement as they are based on unobservable inputs reflecting the Company's management's own assumptions about the inputs used in pricing the asset or liability at fair value.

| | Weighted Average Useful Life (in years) | Fair value |
|---|---|---|
| Trademark—Novitex | 9.5 | $ 18,000 |
| Customer relationships | 16.0 | 230,000 |
| Internally developed software—Connect Platform | 5.0 | 1,710 |
| Non-compete agreements | 1.0 | 1,350 |
| | | $ 251,060 |

As of the date of the Business Combination, the weighted-average useful life of total identifiable intangible assets acquired in the Business Combination, excluding goodwill, is 15.4 years.

The Company expects to realize revenue synergies, leverage, brand awareness, stronger margins, greater free cash flow generation, and expand the existing Novitex sales channels, and utilize the existing workforce. The Company also anticipates opportunities for growth through the ability to leverage additional future solutions and capabilities. These factors, among others, contributed to a

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purchase price in excess of the estimated fair value of Novitex's identifiable net assets assumed, and as a result, the Company has recorded goodwill in connection with this acquisition. The Company engaged a third party valuation firm to aid management in its analyses of the fair value of the assets and liabilities. All estimates, key assumptions, and forecasts were either provided by or reviewed by the Company. Approximately $14.0 million of the goodwill recorded was tax deductible, which was carried over from the tax basis of the seller. Since the acquisition date of July 12, 2017, $292.1 million of revenue and $17.5 million of net loss are included in consolidated revenues and net loss, respectively, for Novitex. These results are included in the ITPS segment.

*Transaction Costs*

The Company incurred approximately $60.0 million in advisory, legal, accounting and management fees in conjunction with the Business Combination as of December 31, 2017, excluding contract cancellation and advising fees to HGM of $23.0 million described in Note 16. Additionally, $7.6 million was incurred related to equity issuance costs and $40.9 million was incurred in debt issuance costs.

*Restructuring Charges*

In February 2017, management performed a strategic review of human resources at Novitex for the purpose of assessing the business need for their employment and for the purpose of quantifying the synergies resulting from the acquisition. As a result, in July 2017, the Company communicated the termination of certain executives and non-executive Novitex employees.

The Company determined that costs associated with termination benefits should be accounted for separately from the acquisition, as a post-combination expense of the combined entity because the expense was incurred for the benefit of the combined entity. As of July 12, 2017, the Company recorded severance expense in the amount of $4.6 million related to the impacted executives and $0.1 million related to other terminations in the statement of operations.

The Company does not expect to incur additional charges for these terminations in future periods. Severance charges associated with the terminations were included in Selling, general, and administrative expenses on the consolidated statement of operations and were included in the ITPS segment.

*Pro-Forma Information*

Following are the supplemental consolidated results of the Company on an unaudited pro forma basis, as if the acquisition had been consummated on January 1, 2016:

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Net Revenue | $ 1,456,225 | $ 1,333,089 |
| Net Loss | $ (121,172) | $ (121,232) |

These pro forma results were based on estimates and assumptions, which the Company believes are reasonable. They are not the results that would have been realized had the Company been a combined company during the periods presented and are not necessarily indicative of consolidated results of operations in future periods. The pro forma results include adjustments primarily related to purchase accounting adjustments. Acquisition costs and other non-recurring charges incurred are included in the earliest period presented.

Additionally, the pro forma results are inclusive of the acquisition of TransCentra by SourceHOV in 2016 for the year ended December 31, 2016. These pro forma results were based on estimates and assumptions, which the Company believes are reasonable. They are not the results that would have been realized had the Company been a combined company during the periods presented and are not necessarily indicative of the Company's consolidated results of operations in future periods.

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**4. Accounts Receivable**

Accounts receivable, net consist of the following:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Billed receivables | $ 199,201 | $ 116,148 |
| Unbilled receivables | 28,449 | 20,982 |
| Other | 5,779 | 4,510 |
| Less: Allowance for doubtful accounts | (3,725) | (3,219) |
| | $ 229,704 | $ 138,421 |

Unbilled receivables represent balances recognized as revenue that have not been billed to the customer. The Company's allowance for doubtful accounts is based on a policy developed by historical experience and management judgment. Adjustments to the allowance for doubtful accounts may occur based on market conditions or specific customer circumstances.

**5. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consist of the following:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Prepaids | $ 22,869 | $ 10,906 |
| Deposits | 1,727 | 1,296 |
| | $ 24,596 | $ 12,202 |

**6. Property, Plant and Equipment, Net**

Property, plant, and equipment, which include assets recorded under capital leases, are stated at cost less accumulated depreciation and amortization, and consist of the following:

| | Estimated Useful Lives (in Years) | December 31, 2017 | December 31, 2016 |
|---|---|---|---|
| Land | N/A | $ 7,744 | $ 7,637 |
| Buildings and improvements | 7 - 40 | 18,726 | 16,989 |
| Leasehold improvements | 3 - 12 | 51,257 | 31,342 |
| Vehicles | 5 - 7 | 870 | 784 |
| Machinery and equipment | 5 - 15 | 62,249 | 23,297 |
| Computer equipment and software | 3 - 8 | 116,580 | 98,544 |
| Furniture and fixtures | 5 - 15 | 7,136 | 5,007 |
| | | 264,562 | 183,600 |
| Less: Accumulated depreciation and amortization | | (131,654) | (102,000) |
| Property, plant and equipment, net | | $ 132,908 | $ 81,600 |

Depreciation expense related to property, plant and equipment was $31.7 million, $22.8 million, and $27.4 million for the years ended December 31, 2017, 2016, and 2015, respectively.

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**7. Intangibles Assets and Goodwill**

**Intangibles**

Intangible assets are stated at cost or acquisition-date fair value less accumulated amortization and consists of the following:

| | December 31, 2017 | | |
|---|---|---|---|
| | Gross Carrying Amount(a) | Accumulated Amortization | Intangible Asset, net |
| Customer relationships | $ 504,643 | $ (135,962) | $ 368,681 |
| Developed technology | 89,076 | (77,103) | 11,973 |
| Trade names(b) | 13,100 | — | 13,100 |
| Outsource contract costs | 40,456 | (17,526) | 22,930 |
| Internally developed software | 28,254 | (2,597) | 25,657 |
| Trademarks | 23,370 | (1,446) | 21,924 |
| Non compete agreements | 1,350 | (631) | 719 |
| | $ 700,249 | $ (235,265) | $ 464,984 |

| | December 31, 2016 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Intangible Asset, net |
| Customer relationships | $ 274,643 | $ (100,172) | $ 174,471 |
| Developed technology | 89,076 | (59,539) | 29,537 |
| Trade names | 53,370 | — | 53,370 |
| Outsource contract costs | 27,619 | (7,378) | 20,241 |
| Internally developed software | 16,742 | (858) | 15,884 |
| Trademarks | 5,370 | (134) | 5,236 |
| | $ 466,820 | $ (168,081) | $ 298,739 |

(a) Amounts include intangibles acquired in the Business Combination. See *Note 3—Business Combinations*.

(b) The carrying amount of trade names for 2017 is net of accumulated impairment losses of $39.3 million. The carrying amount of trade names includes $10.0 million of indefinite-lived trade names that are not amortizable.

In connection with the completion of the annual impairment test as of October 1, 2017, the Company recorded an impairment charge to trade names of $6.3 million. Additionally, later in the fourth quarter of 2017, subsequent to the annual impairment test, the Company implemented a one year strategy to transition to a unified Exela brand beginning in 2018. As a result, the Company performed a quantitative analysis of its trade names as of December 31, 2017, and recorded an additional impairment charge of $33.0 million. As part of the impairment analysis completed on December 31, 2017, the Company reconsidered the estimated useful lives of certain trade names and trademarks, and reduced the estimated useful life to one year. The fair value of the trade names was determined using the Relief from Royalty Method of the Income Approach. The impairment charges resulted in decreases to the carrying values of the ITPS, HS, and LLPS trade names of $23.1 million, $9.6 million, and $6.6 million, respectively, and are included within Impairment of intangible assets in the consolidated statement of operations for the year ended December 31, 2017. The Company did not record any impairment related to its trade names for the year ended December 31, 2016.

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Aggregate amortization expense related to intangibles was $67.2 million, $56.8 million, and $48.0 million for the years ended December 31, 2017, 2016, and 2015, respectively.

Estimated intangibles amortization expense for the next five years and thereafter consists of the following:

| | | Estimated Amortization Expense |
|---|---|---|
| 2018 | $ | 102,865 |
| 2019 | | 59,953 |
| 2020 | | 51,441 |
| 2021 | | 43,616 |
| 2022 | | 39,658 |
| Thereafter | | 157,451 |
| | $ | 454,984 |

**Goodwill**

Goodwill by reporting segment consists of the following:

| | Goodwill | Additions | Reductions | Currency translation adjustments | Goodwill(a) |
|---|---|---|---|---|---|
| ITPS | $ 145,562 | $ 13,558 | $ — | $ 274 | $ 159,394 |
| HS | 86,786 | — | — | — | 86,786 |
| LLPS | 127,111 | — | — | — | 127,111 |
| **Balance as of December 31, 2016** | $ 359,459 | $ 13,558 | $ — | $ 274 | $ 373,291 |
| ITPS | $ 159,394 | $ 406,522(c) | $ — | $ 299 | $ 566,215 |
| HS | 86,786 | — | — | — | 86,786 |
| LLPS | 127,111 | — | (32,787)(b) | — | 94,324 |
| **Balance as of December 31, 2017** | $ 373,291 | $ 406,522 | $ (32,787) | $ 299 | $ 747,325 |

(a) The carrying amount of goodwill for all periods presented is net of accumulated impairment losses of $137.9 million.

(b) The reduction in goodwill is due to $30.1 million for impairment recorded in the fourth quarter of 2017 and $2.7 million for the sale of Meridian Consulting Group, LLC in the first quarter of 2017. *Refer to Note 2—Basis of Presentation and Summary of Significant Accounting Policies* for details of the impairment of goodwill.

(c) Addition to goodwill is primarily the result of the Business Combination, which resulted in $406.1 million of goodwill. *Refer to Note 3—Business Combinations.*

The Company recorded $406.1 million of goodwill as a result of the allocation of the purchase price between assets acquired and liabilities assumed in the Business Combination. Of the total amount of goodwill recorded, $47.0 million of goodwill is associated with net deferred tax liabilities recorded in connection with amortizable intangible assets acquired in the Business Combination. As of the annual impairment testing date in 2017, due to a decline in revenues and operations for the LLPS reporting unit, the Company recorded an impairment charge of $30.1 million to the reporting unit's goodwill. No impairment charges were recorded for the year ended December 31, 2016.

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**8. Accrued Liabilities and Other Long-Term Liabilities**

Accrued liabilities consist of the following:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Accrued taxes (exclusive of income taxes) | $ 9,310 | $ 3,309 |
| Accrued lease exit obligations | 2,207 | 3,949 |
| Accrued professional and legal fees | 16,529 | 8,289 |
| Deferred rent | 1,204 | 989 |
| Accrued interest | 55,102 | 8,459 |
| Accrued transaction costs | 18,232 | 2,750 |
| Other accruals | 1,901 | 1,747 |
| | **$ 104,485** | **$ 29,492** |

Other Long-term liabilities consist of the following:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Deferred revenue | $ 424 | $ 235 |
| Deferred rent | 7,112 | 6,110 |
| Accrued lease exit obligations | 1,144 | 672 |
| Accrued compensation expense | 2,776 | 3,783 |
| Other | 3,248 | 1,173 |
| | **$ 14,704** | **$ 11,973** |

**9. Long-Term Debt and Credit Facilities**

**Senior Secured Notes**

Upon the closing of the Business Combination on July 12, 2017, the Company issued $1.0 billion in aggregate principal amount of 10.0% First Priority Senior Secured Notes due 2023 (the "Notes"). The Notes are guaranteed by certain subsidiaries of the Company. The Notes bear interest at a rate of 10.0% per year. The Company pays interest on the Notes on January 15 and July 15 of each year, commencing on January 15, 2018. The Notes will mature on July 15, 2023.

**Debt Refinancing**

Upon the closing of the Business Combination on July 12, 2017, the $1,050.7 million outstanding balance of SourceHOV related debt facilities and the $420.5 million outstanding balance of Novitex related debt facilities were paid off using proceeds from the Credit Agreement and issuance of the Notes.

In accordance with ASC 470—Debt—Modifications and Extinguishments, as a result of certain lenders that participated in SourceHOV's debt structure prior to the refinancing and the Company's debt structure after the refinancing, it was determined that a portion of the refinancing of SourceHOV's first lien secured term loan and second lien secured term loan ("Original SourceHOV Term Loans") would be accounted for as a debt modification, and the remaining would be accounted for as an extinguishment. The Company incurred $28.9 million in debt issuance costs related to the new secured term loan, of which $2.8 million was third party costs. The Company recorded $7.0 million of original issue discount as part of the refinancing. The Company expensed $1.1 million of costs related to the modified debt and capitalized the remaining $27.8 million. The Company wrote off $30.5 million

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of the unamortized issuance costs and discounts associated with the retirement of SourceHOV's credit facilities. The Company retained approximately $3.3 million and $3.5 million of debt issuance costs and debt discounts, respectively, associated with the modified portion of the Original SourceHOV Term Loans that will be amortized over the term of the new term loan, which are presented on the balance sheet as a contra-debt liability. The Company incurred a $5.0 million prepayment penalty related to the Original SourceHOV Term Loans that was recorded as a loss on extinguishment of debt.

The proceeds of the new debt financing were also used to pay fees and expenses incurred in connection with the Business Combination and for general corporate purposes.

**Senior Credit Facilities**

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the "Credit Agreement") providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, (i) a $350.0 million senior secured term loan maturing July 12, 2023 with an original issue discount of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022, none of which is currently drawn. The Credit Agreement provides for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company's option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity. As of December 31, 2017 the interest rate applicable for the first lien senior secured term loan was 9.064%.

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**Long-Term Debt Outstanding**

As of December 31, 2017 and 2016, the following long-term debt instruments were outstanding:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| First lien revolving credit facility(a) | $ — | $ 63,337 |
| First lien secured term loan(b) | — | 687,884 |
| Second lien secured term loan(c) | — | 236,344 |
| Transcentra revolving credit facility | — | 5,000 |
| Transcentra term loan | — | 19,250 |
| FTS unsecured term loan | — | 15,911 |
| Other(d) | 17,534 | 11,609 |
| First lien credit agreement(e) | 308,825 | — |
| Senior secured notes(f) | 970,300 | — |
| Senior secured revolving credit facility(g) | — | — |
| Total debt | 1,296,659 | 1,039,335 |
| Less: Current portion of long-term debt | (20,565) | (55,833) |
| Long-term debt, net of current maturities | **$ 1,276,094** | **$ 983,502** |

(a) Net of unamortized debt issuance costs of $2.3 million as of December 31, 2016.

(b) Net of unamortized original issue discount and debt issuance costs of $14.6 million and $14.2 million as of December 31, 2016.

(c) Net of unamortized original issue discount and debt issuance costs of $7.3 million and $6.3 million as of December 31, 2016.

(d) Other debt represents outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company.

(e) Net of unamortized original issue discount and debt issuance costs of $9.9 million and $29.1 million as of December 31, 2017.

(f) Net of unamortized debt discount and debt issuance costs of $21.2 million and $8.5 million as of December 31, 2017.

(g) Debt issuance costs of $3.0 million were capitalized as an asset and will be amortized ratably over the term of the facility. Debt issuance costs are included in Other Non Current Assets on the balance sheet.

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As of December 31, 2017, maturities of long-term debt are as follows:

| | Maturity |
|---|---|
| 2018 | $ 20,565 |
| 2019 | 12,547 |
| 2020 | 19,190 |
| 2021 | 19,865 |
| 2022 | 17,555 |
| Thereafter | 1,275,625 |
| Total long-term debt | 1,365,347 |
| Less: Unamortized discount and debt issuance costs | (68,688) |
| | $ 1,296,659 |

As of December 31, 2017 and 2016, the Company had outstanding irrevocable letters of credit totaling approximately $20.9 million and $9.3 million, respectively, under a revolving credit facility.

**10. Income Taxes**

The Company provides for income taxes using an asset and liability approach, under which deferred income taxes are provided based upon enacted tax laws and rates applicable to periods in which the taxes become payable.

For financial reporting purposes, income/ (loss) before income taxes includes the following components:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| United States | $ (279,822) | $ (71,171) | $ (79,054) |
| Foreign | 15,291 | 11,281 | 7,338 |
| | $ (264,531) | $ (59,890) | $ (71,716) |

The provision for federal, state, and foreign income taxes consists of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **Federal** | | | |
| Current | $ (722) | $ — | $ (63) |
| Deferred | (59,425) | (8,961) | (27,931) |
| **State** | | | |
| Current | 1,405 | 830 | 1,203 |
| Deferred | (7,176) | (2,740) | (2,696) |
| **Foreign** | | | |
| Current | 5,794 | 3,112 | (774) |
| Deferred | (122) | (4,028) | 3,449 |
| **Income Tax Benefit** | $ (60,246) | $ (11,787) | $ (26,812) |

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The differences between income taxes expected by applying the U.S. federal statutory tax rate of 35% and the amount of income taxes provided are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Tax at statutory rate | $ (92,586) | $ (20,962) | $ (25,101) |
| **Add (deduct)** | | | |
| State income taxes | (4,219) | 1,483 | 905 |
| Foreign income taxes | (565) | (1,356) | 2,654 |
| Nondeductible transaction costs | 27,311 | — | — |
| Nondeductible goodwill impairment | 10,497 | — | — |
| Permanent differences | 438 | 4,405 | (172) |
| Changes in valuation allowance | (6,159) | 6,075 | (6,880) |
| Unremitted earnings | — | 1,686 | — |
| Changes in U.S. tax rates | (4,784) | — | — |
| Deemed mandatory repatriation | 7,441 | — | — |
| Other | 2,380 | (3,118) | 1,782 |
| **Income Tax Benefit** | $ (60,246) | $ (11,787) | $ (26,812) |

The Tax Cuts and Jobs Act ("TCJA") was signed by the President of the United States and enacted into law on December 22, 2017. The TCJA significantly changes U.S. tax law by reducing the U.S. corporate income tax rate to 21.0% from 35.0%, adopting a territorial tax regime, creating new taxes on certain foreign sourced earnings and imposing a one-time transition tax on the undistributed earnings of certain non-U.S. subsidiaries.

Accounting Standards Codification Topic 740, Income Taxes ("ASC 740") requires companies to account for the tax effects of changes in income tax rates and laws in the period in which legislation is enacted (December 22, 2017). ASC 740 does not specifically address accounting and disclosure guidance in connection with the income tax effects of the TCJA. Consequently, on December 22, 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), to address the application of ASC 740 in the reporting period that includes the date the TCJA was enacted. SAB 118 allows companies a reasonable period of time to complete the accounting for the income tax effects of the TCJA.

At December 31 2017, the Company has not completed the accounting for the income tax effects of the TCJA. However, pursuant to SAB 118, the Company has made provisional estimates of the effects of existing deferred tax assets and liabilities and the one-time transition tax. The Company recognized a $9.4 million provisional tax benefit to Continuing Operations on revaluing its existing net deferred tax liability at the reduced corporate tax rate of 21.0%. Also, the Company determined that a $9.1 million provisional tax was due on estimated earnings and profits subject to the deemed mandatory repatriation. However, a payable was not recorded by the Company since the Company's net operating loss carryforward at December 31, 2017 can be used to offset the mandatory repatriation tax.

The TCJA subjects US stockholders to tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries. Pursuant to FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, the Company can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in subsequent periods or recognize the tax expense related to GILTI as a period cost in the year the tax is incurred. The GILTI provisions are complex and the Company expects additional clarification and interpretive guidance to be released by the Treasury subsequent to the issuance of the Company's annual financial statements. The Company has not elected an accounting policy related to GILTI but will continue evaluating the application of the GILTI provisions during the SAB 118 measurement period.

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The provisional tax effects reflected in the financial statements are subject to change due to, among other things, additional analysis and receipt of final data as well as the release of new authoritative and interpretive guidance. The Company expects to complete its accounting for the effects of the TCJA after the filing of the U.S. federal consolidated and state tax returns in 2018.

The components of deferred income tax liabilities and assets are as follows:

| | Year Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| **Deferred income tax liabilities:** | | |
| Book over tax basis of intangible and fixed assets | $ (113,844) | $ (108,419) |
| Unremitted foreign earnings | — | (1,686) |
| Other, net | $ (2,684) | $ (7,781) |
| Total deferred income tax liabilities | (116,528) | (117,886) |
| **Deferred income tax assets:** | | |
| Allowance for doubtful accounts and receivable adjustments | $ 1,401 | $ 2,112 |
| Inventory | 1,807 | 3,076 |
| Accrued liabilities | 9,586 | 9,554 |
| Net operating loss and tax credit carryforwards | 196,633 | 232,226 |
| Tax deductible goodwill | 3,862 | 6,806 |
| Other, net | 15,518 | 18,364 |
| Total deferred income tax assets | $ 228,807 | $ 272,138 |
| Valuation allowance | (108,622) | (170,821) |
| **Total net deferred income tax assets (liabilities)** | $ 3,657 | $ (16,569) |

Gross deferred tax assets are reduced by valuation allowances to the extent the Company determines it is not more-likely-than-not the deferred tax assets are expected to be realized. At December 31, 2017, the Company recognized $108.6 million of valuation allowances against gross deferred tax assets primarily related to net operating loss and tax credit carryforwards. Of this amount, approximately $84.6 million and $8.7 million of the total valuation allowance was related to U.S. federal and state limitations on the utilization of net operating loss carryforwards due to numerous changes in ownership. The remaining $15.3 million of the valuation allowance was related to non-limited U.S. federal and non-US net operating losses and tax credits that are not expected to be realizable. In connection with the Novitex acquisition, the Company recorded additional taxable temporary differences that provided support for reducing $14.0 million of valuation allowance established in the prior period, and resulted in an income tax benefit. The remaining reduction in the valuation allowance attributable to net deferred tax liabilities acquired in the Novitex acquisition was offset by an increase in valuation allowance on current year losses that are not more-likely-than-not to be realized.

The net change during the year in the total valuation allowance was a decrease of $62.2 million primarily related to the revaluation of deferred tax assets and liabilities at the reduced corporate rate of 21.0%. The reduction of net deferred tax assets due to the rate revaluation also decreased the amount of the valuation allowance by the same amount resulting in no overall net impact to the Company's income tax provision.

Section 382 of the Internal Revenue Code of 1986, as amended (the Code), limits the amount of U.S. tax attributes (net operating loss and tax credit carryforwards) following a change in ownership. The Company has determined that an ownership change occurred under Section 382 on April 3, 2014 and October 31, 2014 for the Pangea group and on October 31, 2014 for the SourceHOV Holdings

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group. The Section 382 limitations significantly limit the pre-acquisition Pangea net operating losses. Accordingly, upon the October 31, 2014 change in control, most of the historic Pangea federal net operating losses were limited and a valuation allowance has been established against the related deferred tax asset. Following the filing of the October 31, 2014, Pangea federal tax returns and further Section 382 analysis, management finalized the amount of the limitation and as a result, approximately $3.5 million of the valuation allowance was released in 2015. Management has concluded that the U.S. tax attributes after Section 382 limitations were applied are more likely than not to be realized. With regard to Pangea's foreign subsidiaries, it was determined that most deferred tax assets are not likely to be realized and valuation allowances have been established. The Section 382 limit that applied to the historic SourceHOV LLC group is greater than the net operating losses and tax credits generated in the predecessor periods. Therefore, no additional valuation allowances were established relating to Section 382 limitations other than the pre-2011 Section 382 limitations that applied.

Included in deferred tax assets are federal, foreign and state net operating loss carryforwards, federal general business credit carryforwards and state tax credit carryforwards due to expire beginning in 2018 through 2037. As of December 31, 2017, the Company has federal and state income tax net operating loss (NOL) carryforwards of $756.6 million and $465.9 million, which will expire at various dates from 2018 through 2037. Such NOL carryforwards expire as follows:

| | Federal NOL | State and Local NOL |
|---|---|---|
| 2018 - 2021 | $ 116,285 | $ 30,400 |
| 2022 - 2026 | 117,314 | 79,355 |
| 2027 - 2037 | 523,025 | 356,172 |
| | $ 756,624 | $ 465,927 |

As of December 31, 2017, the Company has foreign net operating loss carryforwards of $28.8 million, $7.8 million of which were generated by BancTec Holding N.V. and BancTec B.V., and will expire at various dates from 2018 through 2026, and the rest of which can be carried forward indefinitely.

Since the 2014 Reorganization did not result in a new tax basis of assets and liabilities for the Company, some of the goodwill continues to be deductible over the remaining amortization period for tax purposes. At December 31, 2017, approximately $63.9 million of the Company's goodwill is tax deductible, $25.4 million of which is carried over from the 2014 Reorganization. Additionally, the Company has tax deductible goodwill of $26.5 million in connection with the TransCentra acquisition, and $12.0 million in connection with the Novitex acquisition as of December 31, 2017. These amounts were related to the tax basis carried over from the seller.

The Company adopted the provision of accounting for uncertainty in income taxes in the Topic of the ASC 740. ASC 740 clarifies the accounting for uncertain tax positions in the Company's financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on tax returns. The total amount of unrecognized tax benefits at December 31, 2017 is $1.0 million, and if recognized $0.5 million would benefit the effective tax rate. Total accrued interest and penalties recorded on the Consolidated Balance Sheet were $3.0 million and $2.6 million at December 31, 2017 and 2016, respectively. The total amount of interest and penalties recognized in the Consolidated Statement of Operations at December 31, 2017 was $0.4 million. The Company does not anticipate a significant change in the amount of unrecognized tax benefits during 2017.

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The following is a tabular reconciliation of the total amounts of unrecognized tax benefits:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **Unrecognized tax benefits—January 1** | $ 999 | $ 1,287 | $ 2,760 |
| Gross increases—tax positions in prior period | 9 | — | — |
| Gross decreases—tax positions in prior period | 39 | (31) | (916) |
| Gross increases—tax positions in current period | — | 45 | 70 |
| Settlement | — | (103) | (110) |
| Lapse of statute of limitations | — | (199) | (517) |
| **Unrecognized tax benefits—December 31** | $ 1,047 | $ 999 | $ 1,287 |

The Company files income tax returns in the U.S. and various state and foreign jurisdictions. The statute of limitations for U.S. purposes is open for tax years ending on or after December 31, 2013, However, NOLs generated in years prior to 2013 and utilized in future periods may be subject to examination by U.S. tax authorities. State jurisdictions that remain subject to examination are not considered significant. The Company has significant foreign operations in India and Europe. The Company may be subject to examination by the India tax authorities for tax periods ending on or after March 31, 2011.

The Company recorded a provisional amount for the deemed mandatory repatriation of its total post-1986 earnings and profits that were previously deferred from US income taxes. The deemed mandatory repatriation was based in part on the amount of untaxed earnings held in cash and other specified assets. The Company notes the final amount of earnings and profits may change based on the completion of the Company's US federal tax return and the actual amounts held in cash and other specified assets. At December 31, 2017, the Company has not changed its prior indefinite reinvestment assertion on undistributed earnings related to certain foreign subsidiaries. As such, no additional taxes including foreign withholding taxes have been provided on these undistributed earnings. Additionally, the Company does not indefinitely reinvest earnings in Canada, China, India, Mexico and Philippines.

**11. Employee Benefit Plans**

**German Pension Plan**

The Company's subsidiary in Germany provides pension benefits to eligible retirees. Employees eligible for participation includes all employees who started working for the Company prior to September 30, 1987 and have finished a qualifying period of at least 10 years. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

**U.K. Pension Plan**

The Company's subsidiary in the United Kingdom provides pension benefits to eligible retirees and eligible dependents. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to October 2001. A retirement pension or a lump-sum payment may be paid dependent upon length of service at the mandatory retirement age. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

The German pension plan is an unfunded plan and therefore has no plan assets. The expected rate of return assumptions for plan assets relate solely to the UK plan and are based mainly on historical performance achieved over a long period of time (15 to 20 years) encompassing many business and

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economic cycles. The Company assumed a weighted average expected long-term rate on plan assets of 4.25%.

**Funded Status**

The change in benefit obligations, the change in the fair value of the plan assets and the funded status of the Company's pension plans (except for the German pension plan which is unfunded) and the amounts recognized in the Company's consolidated financial statements are as follows:

| | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|
| Change in Benefit Obligation: | | |
| Benefit obligation at beginning of period | $ 82,320 | $ 76,569 |
| Service cost | 8 | 11 |
| Interest cost | 2,288 | 2,667 |
| Plan participants' contributions | — | — |
| Actuarial loss | 1,021 | 19,330 |
| Plan curtailment | — | — |
| Benefits paid | (1,797) | (2,042) |
| Foreign-exchange rate changes | 7,674 | (14,215) |
| Benefit obligation at end of year | $ 91,514 | $ 82,320 |
| Change in Plan Assets: | | |
| Fair value of plan assets at beginning of period | $ 52,538 | $ 55,909 |
| Actual return on plan assets | 6,579 | 6,790 |
| Employer contributions | 2,297 | 1,770 |
| Plan participants' contributions | — | — |
| Benefits paid | (1,782) | (2,031) |
| Foreign-exchange rate changes | 5,254 | (9,900) |
| Fair value of plan assets at end of year | 64,886 | 52,538 |
| Funded status at end of year | $ (26,628) | $ (29,782) |
| Net amount recognized in the Consolidated Balance Sheets: | | |
| Accrued compensation and benefits(a) | $ (1,551) | (1,479) |
| Pension liability(b) | $ (25,077) | $ (28,303) |
| Amounts recognized in accumulated other comprehensive loss, net of tax consist of: | | |
| Net actuarial loss | (11,054) | (12,339) |
| Net amount recognized in accumulated other comprehensive loss, net of tax | $ (11,054) | $ (12,339) |
| Plans with underfunded or non-funded accumulated benefit obligation: | | |
| Aggregate projected benefit obligation | $ 91,514 | $ 82,320 |
| Aggregate accumulated benefit obligation | $ 91,514 | $ 82,320 |
| Aggregate fair value of plan assets | $ 64,886 | $ 52,538 |

(a) Germany pension represents only a portion of the accrued compensation and benefits balance presented in the consolidated balance sheet.

(b) Consolidated balance of $25,496 and $28,712 includes UK pension of $25,077 and $28,303, for the years ended December 31, 2017 and 2016, respectively, and minimum regulatory benefit for a Philippines legal entity.

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**Amounts in Accumulated Other Comprehensive Loss Expected to be Recognized in Net Periodic Benefit Costs in 2017**

The liability recorded on the Company's consolidated balance sheets representing the net unfunded status of this plan is different than the cumulative expense recognized for this plan. The difference relates to losses that are deferred and that will be amortized into periodic benefit costs in future periods. These unamortized amounts are recorded in Accumulated Other Comprehensive Loss in the consolidated balance sheets.

As of December 31, 2017, the estimated pre-tax amount that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year will be net actuarial loss of $3.1 million and prior service cost of $0.1 million.

**Tax Effect on Accumulated Other Comprehensive Loss**

As of December 31, 2017 and 2016, the Company recorded actuarial losses of $11.1 million and $12.3 million, respectively, which is net of a deferred tax benefit of $2.0 million and $2.5 million, respectively.

**Pension and Postretirement Expense**

The components of the net periodic benefit cost are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Service cost | $ 8 | $ 11 | $ 735 |
| Interest cost | 2,288 | 2,667 | 2,926 |
| Expected return on plan assets | (2,392) | (2,623) | (2,696) |
| Curtailment recognized | — | — | (258) |
| Amortization: | | — | — |
| Amortization of prior service cost | (134) | (141) | (159) |
| Amortization of net (gain) loss | 2,063 | 891 | 1,426 |
| Net periodic benefit cost | $ 1,833 | $ 805 | $ 1,974 |

**Valuation**

The Company uses the corridor approach and projected unit credit method in the valuation of its defined benefit plans for the UK and Germany, respectively. The corridor approach defers all actuarial gains and losses resulting from variances between actual results and economic estimates or actuarial assumptions. For defined benefit pension plan, these unrecognized gains and losses are amortized when the net gains and losses exceed 10% of the greater of the market-related value of plan assets or the projected benefit obligation at the beginning of the year. The amount in excess of the corridor is amortized over 15 years. Similarly, the Company used the Projected Unit Credit Method for the German Plan, and evaluated the assumptions used to derive the related benefit obligations consisting primarily of financial and demographic assumptions including commencement of employment, biometric decrement tables, retirement age, staff turnover. The projected unit credit method determines the present value of the Company's defined benefit obligations and related service costs by taking into account each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately in building up the final obligation. Benefit is attributed to periods of service using the plan's benefit formula, unless an employee's service in later years will lead to a materially higher of benefit than in earlier years, in which case a straight-line basis is used.

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The following tables set forth the principal actuarial assumptions used to determine benefit obligation and net periodic benefit costs:

| | December 31, | | | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | UK | | Germany | |
| Weighted-average assumptions used to determine benefit obligations: | | | | |
| Discount rate | 2.50% | 2.70% | 2.40% | 2.45% |
| Rate of compensation increase | N/A | N/A | 1.00% | 1.00% |
| | | | | |
| Weighted-average assumptions used to determine net periodic benefit cost: | | | | |
| Discount rate | 2.70% | 3.90% | N/A | N/A |
| Expected asset return | 4.34% | 5.15% | N/A | N/A |
| Rate of compensation increase | N/A | N/A | N/A | N/A |

The Germany plan is an unfunded plan and therefore has no plan assets. The expected rate of return assumptions for plan assets relates solely to the UK plan and are based mainly on historical performance achieved over a long period of time (15 to 20 years) encompassing many business and economic cycles. Adjustments, upward and downward, may be made to those historical returns to reflect future capital market expectations; these expectations are typically derived from expert advice from the investment community and surveys of peer company assumptions.

The Company assumed a weighted average expected long-term rate of return on plan assets for the overall scheme of 4.25%. The Company's expected rate of return for equities is derived by applying an equity risk premium to the expected yield on the fixed-interest 15-year U.K. government gilts. The Company evaluated a number of indicators including prevailing market valuations and conditions, corporate earnings expectations, and the estimates of long-term economic growth and inflations to derive the equity risk premium. The expected return on the gilts and corporate bonds typically reflect market conditions at the balance sheet date, and the nature of the bond holdings.

The discount rate assumption was developed considering the current yield on an investment grade non-gilt index with an adjustment to the yield to match the average duration of the index with the average duration of the plan's liabilities. The index utilized reflected the market's yield requirements for these types of investments.

The inflation rate assumption was developed considering the difference in yields between a long-term government stocks index and a long-term index-linked stocks index. This difference was modified to consider the depression of the yield on index-linked stocks due to the shortage of supply and high demand, the premium for inflation above the expectation built into the yield on fixed-interest stocks and the UK government's target rate for inflation (CPI) at 2.0%.The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which, due to the time scale covered, may not necessarily be borne out in practice.

**Plan Assets**

The investment objective for the plan is to earn, over moving fifteen to twenty year periods, the long-term expected rate of return, net of investment fees and transaction costs, to satisfy the benefit obligations of the plan, while at the same time maintaining sufficient liquidity to pay benefit obligations and proper expenses, and meet any other cash needs, in the short-to medium-term.

The Company's investment policy related to the defined benefit plan is to continue to maintain investments in government gilts and highly rated bonds as a means to reduce the overall risk of assets held in the fund. No specific targeted allocation percentages have been set by category, but are at the direction and discretion of the plan trustees. During 2017 and 2016, all contributions made to the fund were in these categories.

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The weighted average allocation of plan assets by asset category is as follows:

| | December 31, 2017 | 2016 | 2015 |
|---|---|---|---|
| U.S. and international equities | 45.0% | 42.0% | 41.0% |
| UK government and corporate bonds | 20.0% | 21.0% | 20.0% |
| Diversified growth fund | 35.0% | 37.0% | 39.0% |
| Total | 100.0% | 100.0% | 100.0% |

The following tables set forth, by category and within the fair value hierarchy, the fair value of the Company's pension assets at December 31, 2017 and 2016:

| | December 31, 2017 Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Asset Category: | | | | |
| Cash | $ 256 | $ 256 | $ — | $ — |
| Equities: | — | | | |
| U.S. | 17,307 | 17,307 | — | — |
| International | 11,539 | 11,539 | — | — |
| Fixed Income Securities: | — | | | |
| Corporate bonds | 12,884 | 12,884 | — | — |
| Other investments: | — | | | |
| Diversified growth fund | 22,900 | 22,900 | — | — |
| Total fair value | $ 64,886 | $ 64,886 | $ — | $ — |

| | December 31, 2016 Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Asset Category: | | | | |
| Cash | $ 315 | $ 315 | $ — | $ — |
| Equities: | | | | |
| U.S. | 13,171 | 13,171 | — | — |
| International | 8,781 | 8,781 | — | — |
| Fixed Income Securities: | | | | |
| UK Gilts | 10,962 | 10,962 | — | — |
| Other investments: | | | | |
| Diversified growth fund | 19,309 | 19,309 | — | — |
| Total fair value | $ 52,538 | $ 52,538 | $ — | $ — |

The plan assets for the UK are categorized as follows, as applicable:

Level 1: Any asset for which a unit price is available and used without adjustment, cash balances, etc.

Level 2: Any asset for which the amount disclosed is based on market data, for example a fair value measurement based on a present value technique (where all calculation inputs are based on data).

Level 3: Other assets. For example, any asset value with a fair value adjustment made not based on available indices or data.

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**Employer Contributions**

The Company's funding is based on governmental requirements and differs from those methods used to recognize pension expense. The Company made contributions of $2.3 million to its pension plans during the year ended December 31, 2017. The Company has fully funded the pension plans for 2017 based on current plan provisions. The Company expects to contribute $2.5 million to the pension plans during 2018, based on current plan provisions.

**Estimated Future Benefit Payments**

The estimated future pension benefit payments expected to be paid to plan participants are as follows:

| | Estimated Benefit Payments |
|---|---|
| **Year ended December 31,** | |
| 2018 | $ 1,126 |
| 2019 | 1,364 |
| 2020 | 1,578 |
| 2021 | 1,739 |
| 2022 | 1,937 |
| 2023 - 2027 | 13,284 |
| Total | $ 21,028 |

**12. Commitments and Contingencies**

**Litigation**

The Company is, from time to time, involved in certain legal proceedings, inquiries, claims and disputes, which arise in the ordinary course of business. Although management cannot predict the outcomes of these matters, management does not believe these actions will have a material, adverse effect on the Company's consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

*Appraisal Demand*

On September 21, 2017, former stockholders of the wholly-owned subsidiary SourceHOV, who allege combined ownership of 10,304 shares of SourceHOV Common Stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the Business Combination, which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their shares at the time of the Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). At this early stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate any loss or range of loss that may arise from the Appraisal Action.

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**Lease Commitments**

The Company leases various office buildings, machinery, equipment, and vehicles. Future minimum lease payments under capital leases, included in long-term obligations, and non-cancelable operating leases at December 31, 2017 are as follows:

| | Capital Leases | Operating Lease | Total |
|---|---|---|---|
| 2018 | $ 18,268 | $ 36,945 | $ 55,213 |
| 2019 | 11,260 | 27,143 | 38,403 |
| 2020 | 6,637 | 21,786 | 28,423 |
| 2021 | 5,611 | 15,970 | 21,581 |
| 2022 | 2,070 | 11,424 | 13,494 |
| Thereafter | 4,880 | 16,361 | 21,241 |
| Total minimum lease payments | $ 48,726 | $ 129,629 | $ 178,355 |
| Less: Amounts representing interest | (7,157) | | |
| Total net minimum lease payments | 41,569 | | |
| Less: Current portion of obligations under capital leases | (15,611) | | |
| Long-term portion of obligations under capital leases | $ 25,958 | | |

Rent expense for all operating leases was $60.3 million, $36.7 million, and $30.7 million for the years ended December 31, 2017, 2016, and 2015, respectively.

**Contract-Related Contingencies**

The Company has certain contingent liabilities that arise in the ordinary course of providing services to its customers. These contingencies are generally the result of contracts that require the Company to comply with certain performance measurements or the delivery of certain services by a specified deadline. The Company believes the liability, if any, incurred under these contract provisions will not have a material adverse effect on the Company's consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

The Company has certain contingent liabilities related to prior acquisitions. The Company adjusts these liabilities to fair value at each reporting period. The Company had a $0.7 million liability related to HandsOn Global Management's ("HGM") acquisition of BancTec, Inc. for both December 31, 2017 and 2016, respectively. The fair value is determined using an earn out method based on the agreement terms. This fair value measurement represents a Level 3 measurement as it is based on significant inputs not observable in the market. Significant judgment is employed in determining the appropriateness of these assumptions.

**13. Fair Value Measurement**

**Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis**

The carrying amount of assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable approximated their fair value as of December 31, 2017 and December 31, 2016 due to the relative short maturity of these instruments. Management estimates the fair values of the secured term loan and secured notes at approximately 96.8% and 97.5%, respectively, of the respective principal balance outstanding as of December 30, 2017. The carrying value approximates the fair value for the long-term debt. The Company acquired $11.7 million of other

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long-term debt from Novitex (*refer to Note 3*), which primarily relates to the financing of equipment. Other debt represents the Company's outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company and as such, the cost incurred would approximate fair value. Property and equipment, intangible assets, capital lease obligations, and goodwill are not required to be re-measured to fair value on a recurring basis. These assets are evaluated for impairment if certain triggering events occur. If such evaluation indicates that impairment exists, the respective asset is written down to its fair value.

The Company determined the fair value of its long-term debt using Level 2 inputs including the recent issue of the debt, the Company's credit rating, and the current risk-free rate. The Company's contingent liabilities related to prior acquisitions are re-measured each period and represent a Level 2 measurement as it is based on using an earn out method based on the agreement terms.

The Company determined the fair value of the interest rate swap using Level 2 inputs. The Company uses closing prices as provided by a third party institution. (*Refer to Note 2—Basis of Presentation and Summary of Significant Accounting Policies*).

The following table provides the carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2017 and December 31, 2016:

| As of December 31, 2017 | Carrying Amount | Fair Value | Fair Value Measurements Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| Recurring and nonrecurring assets and liabilities: | | | | | |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |
| Long-term debt | 1,276,094 | 1,308,478 | — | 1,308,478 | — |
| Interest rate swap | 1,297 | 1,297 | — | 1,297 | — |
| | **$ 1,278,112** | **$ 1,310,496** | **$ —** | **$ 1,309,775** | **$ 721** |

| As of December 31, 2016 | Carrying Amount | Fair Value | Fair Value Measurements Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| Recurring and nonrecurring assets and liabilities: | | | | | |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |
| Long-term debt | 983,502 | 1,009,913 | — | 1,009,913 | — |
| | **$ 984,223** | **$ 1,010,634** | **$ —** | **$ 1,009,913** | **$ 721** |

The significant unobservable inputs used in the fair value of the Company's acquisition contingent liabilities are the discount rate, growth assumptions, and revenue thresholds. Significant increases (decreases) in the discount rate would have resulted in a lower (higher) fair value measurement. Significant increases (decreases) in the forecasted financial information would have resulted in a higher (lower) fair value measurement. For all significant unobservable inputs used in the fair value measurement of the Level 3 liabilities, a change in one of the inputs would not necessarily result in a directionally similar change in the other based on the current level of billings.

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The following table reconciles the beginning and ending balances of net assets and liabilities classified as Level 3 for which a reconciliation is required:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Balance as of January 1, | $ 721 | $ 1,513 |
| Payments/Reductions | — | (792) |
| Balance as of December 31, | $ 721 | $ 721 |

**14. Stock-Based Compensation**

At Closing, SourceHOV had 24,535 restricted stock units ("RSUs") outstanding under its 2013 Long Term Incentive Plan ("2013 Plan"). Simultaneous with the Closing, the 2013 Plan, as well as all vested and unvested RSUs under the 2013 Plan, were assumed by Ex-Sigma, LLC ("Ex-Sigma"), an entity formed by the former SourceHOV equity holders, which is also the Company's principal stockholder. In accordance with U.S. GAAP, the Company will continue to incur compensation expense related to the 9,880 unvested RSUs as of July 12, 2017 on a straight-line basis until fully vested, as the recipients of the RSUs are employees of the Company. Subject to continuous employment and other terms of the 2013 Plan, all remaining unvested RSUs with an initial vesting period of 3 or 4 years will vest by April 2019. Stock-based compensation expense is recorded as personnel and related costs within Selling, general, and administrative expenses. The Company incurred total compensation expense of $6.7 million and $7.1 million related to these awards for the years ended December 31, 2017 and 2016, respectively.

**Exela 2018 Stock Incentive Plan**

On December 20, 2017, Exela's 2018 Stock Incentive Plan (the "2018 Plan") became effective. The 2018 Plan provides for the grant of incentive and nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, performance awards, and other stock-based compensation to eligible participants. Under the 2018 Plan, stock options are granted at a price per share not less than 100% of the fair market value per share of the underlying stock at the grant date. The plan administrator determines the vesting period for each option award on the grant date, and the options generally expire 10 years from the grant date. The Company will be authorized to issue up to 8,323,764 shares of Common Stock. No awards have been issued under the 2018 Plan as of December 31, 2017.

A summary of the status of restricted stock units as of December 31, 2017 and 2016, and the changes during the years then ended is presented as follows:

| | Number of Shares | Weighted Remaining Contractual Life (Years) | Aggregate Intrinsic Value ($) |
|---|---|---|---|
| Nonvested as of January 1, 2016 | 7,301 | 2.13 | $ 1,587 |
| Shares granted | 6,375 | | — |
| Shares forfeited | (250) | | — |
| Shares vested | (4,539) | | — |
| Nonvested as of December 31, 2016 | 8,887 | 2.01 | 1,567 |
| Shares granted | — | | — |
| Shares forfeited | (1,192) | | — |
| Shares vested | (2,295) | | — |
| Nonvested as of December 31, 2017 | 5,400 | 1.33 | $ 1,633 |

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For the 6,375 restricted stock units issued during 2016, the fair value of the awards was estimated based on the estimated enterprise value of SourceHOV, determined under a market approach. SourceHOV determined the enterprise value by performing a guideline public company analysis, and determining multiples to apply based on guideline public companies' enterprise value ratios, in accordance with the Guideline Public Company Method. The enterprise value was reduced by outstanding debt to determine the fair value of the Company's equity, which was adjusted for discounts attributable to lack of control and marketability.

As of December 31, 2017, there was approximately $6.0 million of total unrecognized compensation expense related to restricted stock of which will be recognized over the respective service period, approximately 1.33 years. There were 24,535 restricted stock units outstanding, of which 5,400 were unvested. As of December 31, 2016, there were 25,727 restricted stock units outstanding, of which 8,887 were unvested.

*Awards to Non- employees*

At Closing, the Company issued 3,609,375 shares of Common Stock to advisors who are not affiliates of the Company at the Closing in exchange for services provided. The shares issued were fully vested at the Closing. The Company records equity instruments issued to non-employees as expense at the fair value. For the year ended December 31, 2017, the Company recorded expense related to these non-employee advisors of $28.6 million in Selling, general and administrative expense, based on the fair value of $8.00 per share.

**15. Stockholders' Equity**

The following description summarizes the material terms and provisions of the securities that the Company has authorized.

*Common Stock*

The Company is authorized to issue 1,600,000,000 shares of Common Stock. At Closing, the Company had 146,910,648 shares of Common Stock outstanding, of which: a) 80,600,000 shares were issued to Ex-Sigma 2, LLC, b) 30,600,000 shares were issued to the sole stockholder of Novitex, c) 12,093,331 shares were issued to the stockholders of Quinpario who did not redeem their shares, d) 3,609,375 shares were issued to certain third party advisors involved in the Business Combination, and e) 16,358,389 shares were issued to holders as part of a secondary offering at $8.00 per share with an additional 2,399,553 bonus shares issued. Certain stockholders of Quinpario were offered 25% Common Stock bonuses if they executed conversion agreements within a specified time limit. Seven Quinpario stockholders returned the agreements and were awarded 841,876 additional shares. As of December 31, 2017, there were no additional issuances of Common Stock other than the conversion of 3,000,000 shares of Series A Preferred Stock being converted into 3,667,803 shares of Common Stock. In January 2018, 1,625,000 shares of Series A Preferred Stock were converted into 1,986,767 shares of Common Stock. As of December 31, 2017, there were 150,578,451 shares of Common Stock issued and 150,529,151 shares outstanding.

Except as otherwise required by law or as otherwise provided in any certificate of designation for any series of preferred stock or as provided for in the Director Nomination Agreements, the holders of Exela Common Stock possess all voting power for the election of Exela's directors and all other matters requiring stockholder action and will at all times vote together as one class on all matters submitted to a vote of Exela stockholders. Holders of Exela Common Stock are entitled to one vote per share on matters to be voted on by stockholders. Holders of Exela Common Stock will be entitled to receive such dividends and other distributions, if any, as may be declared from time to time by the board of directors in its discretion out of funds legally available therefor and shall share equally on a

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per share basis in such dividends and distributions. The holders of the Common Stock have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the Common Stock.

*Preferred Stock*

The Company is authorized to issue 20,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the board of directors. At the Closing, the Company issued 9,194,233 shares of Series A Preferred Stock. *Refer to Note 3* for additional details about the Business Combination. The par value of the Series A Preferred Stock is $0.0001 per share. Each share of Series A Preferred Stock will be convertible at the holder's option, at any time after the six month anniversary and prior to the third anniversary of the issue date, initially into 1.2226 shares of Exela Common Stock (assuming a conversion price of $8.80 per share and a third anniversary expected liquidation preference of $10.75911 per the below). Due to a Fundamental Change (as defined in the Certificate of Designations, Preferences, Rights and Limitations of the Series A Preferred Stock) that occurred on August 1, 2017 as described in the beneficial conversion feature section of Note 2, holders of the Series A Preferred Stock were able to convert their shares prior to the six month anniversary. Based on such assumed conversion rate, approximately 11,240,869 shares of Exela Common Stock would be issuable upon conversion of all of the shares of Series A Preferred Stock at the six month anniversary of the issue date. As 3,000,000 shares of Series A Preferred Stock converted into 3,667,803 shares of Common Stock upon the occurrence of a fundamental change, as of December 31, 2017, an additional 7,573,066 shares of Common Stock are issuable upon conversion of the remaining 6,194,233 shares of Series A Preferred Stock.

Holders of the Series A Preferred Stock will be entitled to receive cumulative dividends at a rate per annum of 10% of the Liquidation Preference per share of Series A Preferred Stock, paid or accrued quarterly in arrears. From the issue date until the third anniversary of the issue date, the amount of all accrued but unpaid dividends on the Series A Preferred Stock will be added to the Liquidation Preference without any action by the Company's board of directors. For the year ended December 31, 2017, this amount was $2.5 million as reflected on the Consolidated Statement of Operations.

Following the third anniversary of the issue date, dividends on the Series A Preferred Stock will be accrued by adding to the Liquidation Preference or paid in cash, or a combination thereof. In addition, holders of the Series A Preferred Stock will participate in any dividend or distribution of cash or other property paid in respect of the Common Stock pro rata with the holders of the Common Stock (other than certain dividends or distributions that trigger an adjustment to the conversion rate, as described in the Certificate of Designations), as if all shares of Series A Preferred Stock had been converted into Common Stock immediately prior to the date on which such holders of the Common Stock became entitled to such dividend or distribution.

*Treasury Stock*

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires in 24 months. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. As of December 31, 2017,

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49,300 shares had been repurchased under the share buyback program. The Company records treasury stock using the cost method.

*Warrants*

At December 31, 2017, there were a total of 35,000,000 warrants outstanding. As part of its IPO, Quinpario had issued 35,000,000 units including one share of Common Stock and one warrant. As of December 31, 2017, there are 35,000,000 warrants outstanding. The warrants are traded on the OTC Bulletin board as of December 31, 2017.

Each warrant entitles the holder to purchase one-half of one share of Common Stock at a price of $5.75 per half share ($11.50 per whole share). Warrants may be exercised only for a whole number of shares of Common Stock. No fractional shares will be issued upon exercise of the warrants. Each warrant is currently exercisable and will expire July 12, 2022 (five years after the completion of the Business Combination), or earlier upon redemption.

The Company may call the warrants for redemption at a price of $0.01 per warrant upon a minimum of 30 days' prior written notice of redemption, if, and only if, the last sales price of the shares of Common Stock equals or exceeds $24.00 per share for any 20 trading days within a 30 trading day period (the "30-day trading period") ending three business days before the Company sends the notice of redemption, and if, and only if, there is a current registration statement in effect with respect to the shares of Common Stock underlying such warrants commencing five business days prior to the 30-day trading period and continuing each day thereafter until the date of redemption.

**16. Related-Party Transactions**

*Leasing Transactions*

Certain operating companies lease their operating facilities from HOV RE, LLC and HOV Services Limited, which are affiliates through common interest held by Ex-Sigma 2 LLC, our largest stockholder. The rental expense for these operating leases was $0.7 million, $0.6 million, and $0.2 million for the years ended December 31, 2017, 2016, and 2015.

*Consulting Agreements*

The Company receives services from Oakana Holdings, Inc. The Company and Oakana Holdings, Inc. are related through a family relationship between certain stockholders and the president of Oakana Holdings, Inc. The expense recognized for these services was approximately $0.1 million for the year ended December 31, 2017. For the years ended December 31, 2016, and 2015, the Company incurred no expenses for these services.

The Company receives consulting services from Shadow Pond, LLC. Shadow Pond, LLC is wholly-owned and controlled by Vik Negi, our Executive Vice President Treasury and Business Affairs. The consulting arrangement was established to compensate Mr. Negi for his services to the Company prior to becoming an employee. The expense recognized for these services was approximately $0.5 million, $0.5 million, and $0.2 million for the years ended December 31, 2017, 2016 and 2015, respectively. We expect the consulting arrangement with Shadow Pond, LLC to terminate on April 1, 2018 and for Mr.Negi to continue to provide services as an employee of the Company.

*Relationship with HandsOn Global Management*

The Company incurred management fees to HGM, SourceHOV's former owner, of $6.0 million for all years ended December 31, 2017, 2016, and 2015. The contract with HGM was terminated upon consummation of the Business Combination, and no fees were payable after July 12, 2017.

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The Company incurred reimbursable travel expenses to HGM of $0.9 million, $1.7 million, and $0.8 million for the years ended December 31, 2017, 2016, and 2015, respectively.

Pursuant to a master agreement dated January 1, 2015 between Rule 14, LLC and SourceHOV, the Company incurs marketing fees to Rule 14, LLC, a portfolio company of HGM. Similarly, SourceHOV is party to ten master agreements with entities affiliated with HGM's ventures portfolio, each of which were entered into during 2015 and 2016. Each master agreement provides SourceHOV with free use of technology and includes a reseller arrangement pursuant to which SourceHOV is entitled to sell these services to third parties. Any revenue earned by SourceHOV in such third-party sale is shared 75%/25% with each of HGM's venture affiliates in favor of SourceHOV. The brands Zuma, Athena, Peri, BancMate, Spring, Jet, Teletype, CourtQ and Rewardio are part of the HGM ventures portfolio. SourceHOV has the license to use and resell such brands, as described therein. We incurred fees relating to these agreements of $0.6 million and $0.5 million for the years ended December 31, 2017 and 2016, respectively. No expenses were incurred for the year ended December 31, 2015.

During 2017, the Company incurred contract cancellation and advising fees to HGM of $23.0 million, $10.0 million of which was paid by the issuance of 1,250,000 shares of Common Stock, relating to the Business Combination.

*Relationship with HOV Services, Ltd.*

HOV Services, Ltd., a former stockholder of SourceHOV who currently owns equity interest in the Company through Ex-Sigma, provides the Company data capture and technology services. The expense recognized for these services was approximately $1.7 million, $1.7 million, and $1.4 million for the years ended December 31, 2017, 2016, and 2015 and is included in cost of revenue in the consolidated statements of operations.

*Relationship with Apollo Global Management, LLC*

The Company provides services to and receives services from certain companies controlled by investment funds affiliated with Apollo Global Management, LLC (together with its subsidiaries and affiliates, as applicable, "Apollo"). Investment funds affiliated with Apollo also control one of our largest stockholders, Novitex Holdings, which has the right to designate two of the Company's directors and has certain other consent rights under the Director Nomination Agreement. For the year ended December 31, 2017 there were related party expenses of $0.3 million for services received from an Apollo affiliated company with a common Apollo designated director. For the years ended December 31, 2016 and 2015, the Company incurred no expenses for these services.

On November 18, 2014, Novitex Solutions, entered into a master services agreement with Management Holdings, an indirect wholly-owned subsidiary of Apollo. Pursuant to this master services agreement, Novitex Solutions provides Management Holdings printer supplies and maintenance services, including toner maintenance, training, quarterly business review and printer procurement. We recognized revenue of approximately $0.3 million in our consolidated statements of operations from Apollo Holdings under this agreement for the year ended December 31, 2017. For the years ended December 31, 2016 and 2015, there were no revenues from this agreement.

On January 18, 2017, Novitex Solutions entered into a master purchase and professional services agreement with Caesars Enterprise Services, LLC ("Caesars"). Caesars is controlled by investment funds affiliated with Apollo. Pursuant to this master purchase and professional services agreement, Novitex Solutions provides managed print services to Caesars, including general equipment operation, supply management, support services and technical support. We recognized revenue of approximately $1.2 million in our consolidated statements of operations from Caesars under this master purchase and professional services agreement for the year ended December 31, 2017. For the years ended December 31, 2016 and 2015, there were no revenues from this agreement.

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On May 5, 2017, Novitex Solutions entered into a master services agreement with ADT LLC. ADT LLC is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Novitex Solutions provides ADT LLC with mailroom and onsite mail delivery services at an ADT LLC office location and managed print services, including supply management, equipment maintenance and technical support services. We recognized revenue of less than $0.1 million in our consolidated statements of operations from ADT LLC under this master services agreement for the year ended December 31, 2017.

*Payable Balances with Affiliates*

Payable balances with affiliates as of December 31, 2017 and 2016 are as follows:

| | December 31, | |
|---|---|---|
| | 2017 | 2016 |
| | Payable | Payable |
| HOV Services, Ltd | $ 286 | $ 352 |
| Rule 14 | 158 | 134 |
| HGM | 13,689 | 8,858 |
| Apollo affiliated company | 312 | — |
| | $ 14,445 | $ 9,344 |

**17. Segment and Geographic Area Information**

The Company's operating segments are significant strategic business units that align its products and services with how it manages its business, approach the markets and interacts with its customers. The Company is organized into three segments: ITPS, HS, and LLPS.

**ITPS:** The ITPS segment provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries.

**HS:** The HS segment operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets.

**LLPS:** The LLPS segment provides a broad and active array of legal services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters.

The chief operating decision maker reviews operating segment revenue and cost of revenue. The Company does not allocate Selling, general, and administrative expenses, depreciation and amortization, interest expense and sundry, net. The Company manages assets on a total company basis,

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not by operating segment, and therefore asset information and capital expenditures by operating segments are not presented.

| | Year December 31, 2017 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | 827,110 | 233,595 | 91,619 | 1,152,324 |
| Cost of revenue | 620,719 | 152,864 | 55,560 | 829,143 |
| Selling, general and administrative expenses | | | | 220,955 |
| Depreciation and amortization | | | | 98,890 |
| Impairment of goodwill and other intangible assets | | | | 69,437 |
| Related party expense | | | | 33,431 |
| Interest expense, net | | | | 128,489 |
| Loss on extinguishment of debt | | | | 35,512 |
| Sundry expense, net | | | | 2,295 |
| Other income, net | | | | (1,297) |
| **Net loss before income taxes** | | | | $ (264,531) |

| | Year ended December 31, 2016 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | 439,924 | 247,796 | 102,206 | 789,926 |
| Cost of revenue | 296,848 | 158,800 | 63,473 | 519,121 |
| Selling, general and administrative expenses | | | | 130,437 |
| Depreciation and amortization | | | | 79,639 |
| Related party expense | | | | 10,493 |
| Interest expense, net | | | | 109,414 |
| Sundry expense, net | | | | 712 |
| **Net loss before income taxes** | | | | $ (59,890) |

| | Year December 31, 2015 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | 421,409 | 251,685 | 132,138 | 805,232 |
| Cost of revenue | 303,067 | 174,380 | 82,399 | 559,846 |
| Selling, general and administrative expenses | | | | 120,691 |
| Depreciation and amortization | | | | 75,408 |
| Related party expense | | | | 8,977 |
| Interest expense, net | | | | 108,779 |
| Sundry expense, net | | | | 3,247 |
| **Net loss before income taxes** | | | | $ (71,716) |

The following table presents revenues by principal geographic area where the Company's customers are located for the years ended December 31, 2017 and 2016:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| United States | $ 1,001,766 | $ 654,565 | $ 664,795 |
| Europe | 135,575 | 131,303 | 136,711 |
| Other | 14,983 | 4,058 | 3,726 |
| Total Consolidated Revenue | $ 1,152,324 | $ 789,926 | $ 805,232 |

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**18. Selected Quarterly Financial Results (Unaudited)**

The following tables show a summary of the Company's quarterly financial information for each of the four quarters of 2017 and 2016. Significant items impacting the fourth quarter of 2017 compared to other interim periods in 2017 relate to the Business Combination of SourceHOV Holdings, Inc. and Novitex Holdings, Inc. as described in Note 3 to the consolidated financial statements and impairment charges as described in Note 7 to the consolidated financial statements.

| | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
|---|---|---|---|---|
| Revenue | $ 218,260 | $ 209,382 | $ 338,393 | $ 386,289 |
| Cost of revenue (exclusive of depreciation and amortization) | 143,708 | 140,418 | 255,116 | 289,901 |
| Selling, general and administrative expenses | 35,581 | 34,998 | 102,048 | 48,328 |
| Depreciation and amortization | 21,320 | 21,406 | 28,052 | 28,112 |
| Impairment of goodwill and other intangible assets | — | — | — | 69,437 |
| Related party expense | 2,385 | 2,456 | 26,892 | 1,698 |
| **Operating income (loss)** | 15,266 | 10,104 | (73,715) | (51,187) |
| **Other expense (income), net:** | | | | |
| Interest expense, net | 26,219 | 27,869 | 37,652 | 36,749 |
| Loss on extinguishment of debt | — | — | 35,512 | — |
| Sundry expense (income), net | 2,724 | (327) | 563 | (665) |
| Other income, net | — | — | — | (1,297) |
| **Net loss before income taxes** | (13,677) | (17,438) | (147,442) | (85,974) |
| Income tax (expense) benefit | (2,004) | (2,074) | 37,002 | 27,322 |
| **Net loss** | (15,681) | (19,512) | (110,440) | (58,652) |
| Dividend equivalent on Series A Preferred Stock related to beneficial conversion feature | — | — | (16,375) | — |
| Cumulative dividends for Series A Preferred Stock | — | — | (1,225) | (1,264) |
| **Net loss attributable to common stockholders** | $ (15,681) | $ (19,512) | $ (128,040) | $ (59,916) |
| Weighted average outstanding common shares | 67,827,401 | 69,721,078 | 138,895,681 | 150,569,877 |
| **Earnings per share:** | | | | |
| Basic and diluted | $ (0.23) | $ (0.28) | $ (0.92) | $ (0.40) |

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| | Q1 2016 | Q2 2016 | Q3 2016 | Q4 2016 |
|---|---|---|---|---|
| Revenue | $ 199,690 | $ 191,464 | $ 186,373 | $ 212,399 |
| Cost of revenue (exclusive of depreciation and amortization) | 133,343 | 122,577 | 121,780 | 141,421 |
| Selling, general and administrative expenses | 31,028 | 33,528 | 30,829 | 35,052 |
| Depreciation and amortization | 18,759 | 20,943 | 18,761 | 21,176 |
| Related party expense | 2,335 | 2,589 | 2,448 | 3,121 |
| **Operating income (loss)** | 14,225 | 11,827 | 12,555 | 11,629 |
| **Other expense (income), net:** | | | | |
| Interest expense, net | 27,400 | 26,913 | 27,399 | 27,702 |
| Sundry expense (income), net | (1,931) | 1,503 | 711 | 429 |
| **Net loss before income taxes** | (11,244) | (16,589) | (15,555) | (16,502) |
| Income tax benefit | 3,082 | 3,130 | 3,757 | 1,818 |
| **Net loss** | (8,162) | (13,459) | (11,798) | (14,684) |
| **Net loss attributable to common stockholders** | $ (8,162) | $ (13,459) | $ (11,798) | $ (14,684) |
| Weighted average outstanding common shares | 64,024,557 | 64,024,557 | 64,024,557 | 64,024,557 |
| **Earnings per share:** | | | — | |
| Basic and diluted | $ (0.13) | $ (0.21) | $ (0.18) | $ (0.23) |

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## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as defined by Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2017. Based on the evaluation of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2017 due to a material weakness in its internal control over financial reporting described below.

Notwithstanding the material weaknesses, management believes the consolidated financial statements included in this Annual Report on Form 10-K present fairly, in all material respects, the Company's financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. generally accepted accounting principles.

### Management's Report on Internal Controls Over Financial Reporting

This Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

### Previously Identified Material Weaknesses in Internal Control over Financial Reporting

For the year ended December 31, 2016, we identified and disclosed material weaknesses in SourceHOV's internal controls over financial reporting with respect to (i) deficiencies in the financial statement close process, including appropriate levels of review and (ii) the lack of formal policies and procedures and related controls related to the evaluation of goodwill for impairment and the supervision of specialists engaged to assist management in making the necessary fair value estimates involved in the impairment analysis. To remediate the material weakness described in (i) above, we designed and implemented controls and enhanced and revised the design of existing controls and procedures and properly addressed that material weakness. For the material weakness described in (ii) above, management has not adequately addressed the supervision of specialists engaged to assist management in developing accounting conclusions with respect to a specific revenue contract and stock-based compensation accounting. As a result, for the year ended December 31, 2017, a material weaknesses in internal controls over financial reporting continues to exist.

### Changes in Internal Control over Financial Reporting

Except as noted above, there were no changes in the Company's internal control over financial reporting identified during the fourth quarter of 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION

None.

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## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

#### Directors and Executive Officers

Our current directors and executive officers are as follows:

| Name | Age | Position |
|---|---|---|
| Par Chadha | 62 | Chairman of the Board |
| Ronald Cogburn | 62 | Chief Executive Officer |
| Jim Reynolds | 49 | Chief Financial Officer |
| Matthew H. Nord | 38 | Director |
| Joshua M. Black | 31 | Director |
| Nathaniel J. Lipman | 53 | Director |
| Gordon J. Coburn | 54 | Director |
| John H. Rexford | 61 | Director |
| Suresh Yannamani | 52 | President |
| Mark Fairchild | 58 | President, Exela Enterprise Solutions |
| Shrikant Sortur | 45 | Executive Vice President, Global Finance |

***Par Chadha*** is the Chairman of our board of directors and is the founder, Chief Executive Officer and Chief Investment Officer of HGM, a family office, formed in 2001, and the principal stockholder of SourceHOV immediately prior to the Business Combination on July 12, 2017. Mr. Chadha also served as Chairman of SourceHOV from 2011 until the closing of the Business Combination. Mr. Chadha brings over 40 years of experience in building businesses in the Americas, Europe and Asia, including execution of mergers and acquisitions, integration of businesses and public offerings. Mr. Chadha is co-founder and owner of Rule 14, LLC, a leading big data mining and automation company formed in 2011, and during his career, Mr. Chadha has founded or co-founded other technology companies in the fields of metro optical networks, systems-on-silicon and communications. Through HGM, Mr. Chadha previously participated in director and executive roles in joint ventures with major financial and investment institutions, including Apollo, as well as other portfolio companies of HGM, and currently holds and manages investments in evolving financial technology, health technology and communications industries. Since 2005, Mr. Chadha has served as a Director of HOV Services Limited, a company listed on the National Stock exchange of India, acting as its Chairman from 2009 to 2011. Mr. Chadha holds a B.S. in electrical engineering from Punjab Engineering College, India.

We believe Mr. Chadha's significant experience in the public information technology and business services industry and his experience with mergers and integration of businesses make him well-qualified to serve as a director of Exela.

***Ronald Cogburn*** is our Chief Executive Officer and served as Chief Executive Officer of SourceHOV from 2013 until the closing of the Business Combination. Mr. Cogburn has been part of companies that were predecessors to SourceHOV since 1993, bringing over 30 years of diversified experience in executive management, construction claims consulting, litigation support, program management project management, cost estimating, damages assessment and general building construction. Mr. Cogburn has also been the President of Meridian Consulting Group, LLC since January 1998 and a principal of HGM since 2003. Prior to his role as Chief Executive Officer of

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SourceHOV, Mr. Cogburn was SourceHOV's President, KPO from March 2011 to July 2013. Prior to this role, Mr. Cogburn was the President of HOV Services, LLC from January 2005 to September 2007, providing executive leadership during the company's growth to its IPO on the India Stock Exchange in September 2006. Mr. Cogburn has a BSCE in Structural Design/Construction Management from Texas A&M University and is a registered Professional Engineer.

We believe that Mr. Cogburn's significant, diversified business experience in Exela's industry make him well-qualified to serve as a director of Exela.

***Jim Reynolds*** is our Chief Financial Officer and has served in that role since the closing of the Business Combination. Mr. Reynolds served as Co-Chairman of SourceHOV from 2014 until the closing of the Business Combination in 2017. Mr. Reynolds is also the Chief Operating Officer and a Partner at HGM, bringing over 25 years of industry experience to the team. Prior to HGM Mr. Reynolds held numerous executive management or senior advisory positions at SourceHOV and its related subsidiaries and predecessor companies, including serving as Chief Financial Officer for HOV Services, LLC from 2007 to 2011 and Vice President and Corporate Controller for Lason from 2001 to 2006. Mr. Reynolds was a Senior Manager in the Business Advisory Services Practice at PricewaterhouseCoopers from 1990 to 2001. Mr. Reynolds is a C.P.A. and holds a B.S. in Accounting from Michigan State University.

We believe that Mr. Reynold's significant industry and management experience make him well-qualified to serve as a director of the Company.

***Matthew H. Nord*** is a Senior Partner of Apollo, where he has been employed since 2003. From 2001 to 2003, Mr. Nord was a member of the Investment Banking division of Salomon Smith Barney Inc. Mr. Nord serves on the boards of directors of Presidio, Inc., The ADT Corporation, and Mt. Olympus Holdings, Inc., DSB Parent, L.P. Mr. Nord also serves on the Board of Trustees of Montefiore Health System and on the Board of Overseers of the University of Pennsylvania's School of Design. Mr. Nord served as a Director of Novitex from July 2013 until the closing of the Business Combination. Mr. Nord graduated summa cum laude with a B.S. in Economics from the Wharton School of the University of Pennsylvania.

We believe that Mr. Nord's work at Apollo and his prior experience in investment banking and analyzing, financing and investing in public and private companies, makes him well-qualified to serve as a director of Exela.

***Joshua M. Black*** is a Principal of Apollo, where he has been employed since 2011. From 2010 to 2011, Mr. Black was a member of the Leveraged Finance Group of Goldman, Sachs & Co. From 2008 to 2010, Mr. Black was a member of the Financial Institutions Group within the Investment Banking Division of Goldman, Sachs & Co. Mr. Black has served as a director of Environmental Solutions Worldwide, Inc., a public company, from January 2011 to March 2015 and Athene USA Corporation from October 1, 2013 to January 22, 2015. Mr. Black graduated cum laude with a B.A. in Religion from Princeton University.

We believe Mr. Black's significant investment and financial expertise make him well-qualified to serve as a director of Exela.

***Nathaniel J. Lipman*** has held numerous executive management or senior advisory positions in Affinion Group Holdings, Inc., a public company that provides customer engagement and loyalty solutions, and/or its predecessors and subsidiaries, including serving as its Chief Executive Officer from 2005 to 2012 and Executive Chairman of the board of directors from 2012 to November 2015. Since November 2015, Mr. Lipman has served as a consultant to Affinion Group Holdings, Inc. Since December 2015, Mr. Lipman has served as a Special Advisor to the Chairman of the Upside Travel Group, Inc., a business travel company, where he was a founding member of the Board of Managers. From 1996 to 1999, Mr. Lipman served as Senior Executive Vice President, Corporate Development

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and Strategic Planning for Planet Hollywood International, Inc., an entertainment and restaurant company. Prior to his tenure at Planet Hollywood, Mr. Lipman was Senior Vice President and General Counsel of House of Blues Entertainment, Inc., an entertainment and restaurant company, Senior Corporate Counsel at The Walt Disney Company, a diversified worldwide entertainment company, and a corporate associate at Skadden, Arps, Slate, Meagher and Flom, LLP. Mr. Lipman serves on the board of directors of Trusted Media Brands, Inc., Diamond Resorts International, Walker Innovations, Inc. and Redbox Automated Holdings, LLC. During the past five years, Mr. Lipman has also served as a director of EVERTEC, Inc. from September 2010 to April 2013 and Walker Digital Holdings, LLC from May 2013 to September 2013. Mr. Lipman also previously served as a director of Netmarket Group, Inc. Mr. Lipman received a Bachelor of Arts in Political Economy of Industrial Societies from the University of California, Berkeley and a J.D. from UCLA School of Law.

We believe that Mr. Lipman's significant experience and numerous directorships make him well-qualified to serve as a director of Exela.

***Gordon J. Coburn*** is an Operating Executive for the Carlyle Group, which he joined in December 2017. He has also served as the Executive Chairman of ZeroChaos, LLC since August 2017. Mr. Coburn previously held numerous executive management positions in Cognizant Technology Solutions Corporation, a professional services company, from 1998 to 2016, including serving as President from 2012 to 2016, Chief Operating Officer from 2007 to 2012, Chief Financial Officer and Treasurer from 1998 to 2012, Executive Vice President from 2003 to 2006 and Senior Vice President from 1999 to 2003. Mr. Coburn has served as a director of ProKarm, Inc. since February 2018. Mr. Coburn has also served as a director of CEB Inc. from 2007 until its acquisition in April 2017, director of US2020 from 2013 to 2015, director of TechAmerica from 2009 to 2013, director of ICT Group, Inc. from 2005 until its acquisition in 2010 and director of Information Technology Association of America from 2005 to 2008. Mr. Coburn holds a Bachelor of Arts degree from Wesleyan University and a Master of Business Administration degree from the Amos Tuck School at Dartmouth College, where he serves as a member of its MBA Advisory Board.

We believe that Mr. Coburn's experience as a director and as an officer of a major public information technology and business services firm make him well-qualified to serve as a director of Exela.

***John H. Rexford*** is the Managing Director of Ramona Park Consulting LLC, which he founded in 2016. Mr. Rexford has over 36 years of finance experience that includes serving as Global M&A Head from 2010 to 2015 at the Xerox Corporation and serving in various positions at Affiliated Computer Services, Inc. (which was acquired by the Xerox Corporation), including Chief Financial Officer from 2006 to 2007, Executive Vice President from 2001 to 2009 and Senior Vice President of Mergers and Acquisitions from 1996 to 2001. Mr. Rexford received a Bachelor of Business Administration from Southern Methodist University and a MBA from SMU Cox School of Business.

We believe that Mr. Rexford's prior experiences give him an understanding of the business models, structures and attributes of Exela, as well as the risks and operating environment of Exela, which make him well-qualified to serve as a director of Exela.

***Suresh Yannamani*** is our President and served as President, Americas of SourceHOV from 2011 until the closing of the Business Combination, and was been a part of companies that were predecessors to SourceHOV from 1997 until the closing of the Business Combination. Mr. Yannamani oversees the region's sales and operations and plays a large part in scaling the transaction processing solutions practice and enterprise solution strategy for healthcare, financial services and commercial industries. Mr. Yannamani was also President of HOV Services, LLC from 2007 to 2011, serving customers in the healthcare, financial services, insurance and commercial industries. Mr. Yannamani was the Executive Vice President of BPO services for Lason, which was subsequently acquired by HOV Services, LLC from 1997 to 2007. Mr. Yannamani also served in management roles at IBM from 1995

to 1997, managing the design, development, and implementation of financial management information systems for the Public Sector and worked for Coopers & Lybrand as a consultant in public audits from 1992 to 1994. Mr. Yannamani has a bachelor's degree in Chemistry from the University of London and holds an MBA from Eastern Michigan University.

***Mark Fairchild*** is our President, Exela Enterprise Solutions and served as President, Europe, of SourceHOV from the merger of BancTec and SourceHOV in 2014, having served in management roles at BancTec since 1985. With more than 30 years of executive experience in the financial services industry, Mr. Fairchild specializes in global account management, transaction processing services, software solutions & hardware technology products. In 2005, Mr. Fairchild was appointed Chief Technology Officer of BancTec and was responsible for the company's software and hardware products, manufacturing and internal IT services until 2014. Prior to this role, Mr. Fairchild acted as Vice President for International Operations from 2001 to 2005 and VP of European Operations from 1998 to 2001. In his role as International Systems Director from 1991 to 1998, Mr. Fairchild led the European software teams, implementing payment platforms throughout the region. As Director of Engineering of BancTec from 1989 to 1991, Mr. Fairchild led the research and development team that introduced a new high-speed digital image processing system that formed the base of BancTec's ImageFIRST product portfolio. Mr. Fairchild joined BancTec as a Project Manager, a position he held from 1985 to 1986. He began his career as a software developer at British Aerospace, where he worked from 1981 to 1985. Mr. Fairchild graduated with honors from Manchester University with a bachelor's degree in aeronautical engineering and an MBA from London Business School.

***Shrikant Sortur*** is our Executive Vice President, Global Finance and served as Senior Vice President, Global Finance of SourceHOV from 2016 until the closing of the Business Combination. He was responsible for SourceHOV's finance and accounting groups, a role in which he leads financial operations, activities, plans and budgets. Mr. Sortur's career spans more than 19 years of varied experience in financial management, accounting, reporting, and lean operations. Mr. Sortur served in management roles in predecessor companies to SourceHOV from 2002 until the closing of the Business Combination. Mr. Sortur also acted as Vice President of Finance of SoureHOV from June 2015 to May 2016. Mr. Sortur acted as Director of Financial Planning and Analysis, TPS from January 2014 to June 2015. Prior to this role, Mr. Sortur was the Director of Financial Planning and Analysis, North America Operations from January 2012 to December 2013. Mr. Sortur acted as Controller for HOV Global from January 2009 to December 2011. Mr. Sortur was a Senior Accounting Manager for HOV Services, LLC / Lason, Inc. from May 2004 to December 2008 and worked for the SourceHOV group as a Manager, Finance & Accounts for Lason India Ltd. from December 2002 to May 2014. From March 1999 to December 2002, Mr. Sortur served as General Manager, Finance at SRM Technologies, a business solutions and technology provider specializing in software design and development, systems integration, web services, enterprise mobilization, and embedded solutions development. From June 1997 to February 1999, Mr. Sortur served as Junior Manager, Finance and Accounting for Steel Authority of India, a large state-owned steel making company based in New Delhi, India. Mr. Sortur graduated from Osmania University with a bachelor's degree in accounting and is a Certified Public Accountant (CPA), Chartered Accountant (CA), and Certified Management Accountant (CMA).

## ITEM 11. EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### Executive Compensation Program Overview

Prior to the close of the Business Combination, SourceHOV maintained an executive compensation program that was aimed at attracting, motivating and rewarding executives for exceeding financial performance expectations and enhancing shareholder value. The program primarily consisted of a base salary, discretionary cash bonuses, and equity-based long-term incentive awards. The

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compensation committee of our board of directors, or the compensation committee, did not engage outside advisors to assist with its review or administration of our executive compensation program and instead decided to maintain SourceHOV's existing executive compensation program during the portion of the 2017 calendar year that followed the close of the Business Combination.

In 2018, the compensation committee engaged Willis Towers Watson to assist with its review of our executive compensation program. With the assistance of Willis Towers Watson, the compensation committee expects to develop and implement a new executive compensation program during 2018 that is market competitive, supports the achievement of short-term financial and operational performance, aligns the interests of our named executive officers with those of our stockholders, and allows us to successfully attract and retain the talent needed to continue to grow and successfully execute our business strategy.

This discussion summarizes material aspects of our executive compensation program during 2017 for our named executive officers which consisted of the following executive officers:

- Ronald C. Cogburn, Chief Executive Officer
- Jim Reynolds, Chief Financial Officer
- Suresh Yannamani, President
- Mark Fairchild, President, Exela Enterprise Solutions
- Shrikant Sortur, Executive Vice President, Global Finance

**Material Elements of our 2017 Executive Compensation Program**

*Salary*

We generally provide our named executive officers a base salary to compensate them for their service in their respective roles. Salaries for 2017 for our named executive officers (other than Messrs. Reynolds and Sortur) remained the same before and after the close of the Business Combination. On January 25, 2018, the compensation committee approved a base salary for Mr. Reynolds equal to $325,000, with retroactive effect as of the consummation of the Business Combination, or July 12, 2017. Mr. Reynolds' base salary reflects the base salary earned by him with respect to service as our Chief Financial Officer following the Business Combination during 2017, which was paid to him in the form of a lump sum catch-up payment on February 16, 2018. Mr. Sortur's base salary was increased from $195,000 to $280,000, which became effective on October 1, 2017, in recognition of his expanded duties and responsibilities resulting from the Business Combination.

*Cash Bonuses*

Prior to the close of the Business Combination, SourceHOV's practice was to provide discretionary bonuses to certain of our named executive officers. The objective of the cash bonuses was to recognize the named executive officer for his contributions to the achievement of various key short-term performance indicators. Factors that were considered in making these bonus payments included performance relative to revenue projections, EBITDA levels and margin, and cost savings initiatives. Bonuses have historically been paid in equal installments on each pay period during the calendar year following the calendar year of performance (for example, 2016 bonuses were paid in equal installments during 2017), subject to continued employment through each applicable payroll date.

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The table below details the aggregate bonuses paid to each of our named executive officers during 2017 for performance during the 2016 calendar year.

| Executive | 2016 Bonus |
|---|---|
| Ronald C. Cogburn | $ 300,000 |
| Jim Reynolds | — |
| Suresh Yannamani | $ 300,000 |
| Mark Fairchild | — |
| Shrikant Sortur | $ 66,667 |

In lieu of bonuses for performance during the 2017 calendar year, our named executive officers (other than Mr. Reynolds) have received, and are eligible to receive, the transaction bonuses described below.

*Transaction Bonuses*

Each of Messrs. Cogburn, Yannamani, Fairchild and Sortur received a portion of, and is eligible to receive the remaining portion of, a cash transaction bonus in partial consideration for their efforts in connection with the Business Combination. Receipt of the transaction bonus payments by each of Messrs. Cogburn, Yannamani, Fairchild and Sortur was and is contingent on the applicable executive remaining continuously employed by the Company and its subsidiaries through the applicable payment date. The table below details the transaction bonuses payable to our named executive officers.

| Executive | Transaction Bonus |
|---|---|
| Ronald C. Cogburn | $ 350,000(1) |
| Jim Reynolds | — |
| Suresh Yannamani | $ 450,000(2) |
| Mark Fairchild | $ 200,000(3) |
| Shrikant Sortur | $ 200,000(4) |

(1) Mr. Cogburn's transaction bonus was paid in $50,000 increments on each of January 5, 2018, January 19, 2018, February 2, 2018, February 16, 2018 and March 2, 2018. Subject to his continuous employment with the Company and its subsidiaries, he will be paid the remaining two $50,000 increments on March 16, 2018 and March 30, 2018, respectively.

(2) Mr. Yannamani's transaction bonus was paid in $75,000 increments on each of January 12, 2018, January 26, 2018, February 9, 2018 and February 23, 2018. Subject to his continuous employment with the Company and its subsidiaries, he will be paid the remaining two $75,000 increments on March 9, 2018 and March 23, 2018, respectively.

(3) Mr. Fairchild's transaction bonus was paid in approximately $33,333 increments on each of January 12, 2018, January 26, 2018, February 9, 2018 and February 23, 2018. Subject to his continuous employment with the Company and its subsidiaries, he will be paid the remaining two approximately $33,333 increments on March 9, 2018 and March 23, 2018, respectively.

(4) Mr. Sortur's transaction bonus was paid in approximately $16,667 increments on each of October 27, 2017, November 9, 2017, November 24, 2017, December 8, 2017, December 22, 2017, January 5, 2018, January 19, 2018, February 2, 2018, February 16, 2018 and March 2, 2018. Subject to his continuous employment with the Company and its subsidiaries, he will be paid the remaining two approximately $16,667 increments on March 16, 2018 and March 30, 2018, respectively.

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Because only a portion of the transaction bonus paid to Mr. Sortur was paid or earned in 2017, the remaining transaction bonuses are not included in the Summary Compensation Table in this filing.

*Long-Term Incentives*

On December 19, 2017, our board of directors adopted, our 2018 Stock Incentive Plan, or the Plan, which was subsequently approved on December 20, 2017 by the written consent of the holders of a majority of the shares of our Common Stock. The Plan became effective on January 17, 2018. The Plan, which is administered by the compensation committee, permits us to grant an aggregate of 8,323,764 shares of our Common Stock to eligible participants in the form of stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance awards and other awards that may be settled in or based on our Common Stock. The compensation committee did not grant any awards under our Plan in 2017. As a part of the overall review of our executive compensation program, we anticipate making equity grants in the future to create alignment with our stockholders, motivate long-term value creation and retain our executives.

Prior to the Business Combination, long-term incentives were a key component of the executive compensation program. Our subsidiary, SourceHOV, maintained a long-term incentive compensation plan, the 2013 Long Term Incentive Plan or the 2013 Plan, pursuant to which certain of our named executive officers were previously granted restricted stock units. SourceHOV's objectives in granting equity-based awards was to retain executives, align our executives' interests with those of our shareholders, and provide an incentive to deliver long-term performance. In connection with the Business Combination, the 2013 Plan and all outstanding awards thereunder were assumed by Ex-Sigma LLC, or Ex-Sigma.

Ex-Sigma is a limited liability company that was formed to facilitate the raising of the funds necessary to consummate the Business Combination and is owned by the former equity holders of SourceHOV. Ex-Sigma, through its wholly-owned subsidiary Ex Sigma 2, LLC, or Ex Sigma 2, owns 84,912,500 shares of our Common Stock and 2,669,233 shares of our preferred stock (which presently are convertible into 3,263,473 shares of Common Stock). Those shares are pledged to secure certain financing incurred in connection with the Business Combination. Upon the repayment of such financing, it is anticipated that Ex-Sigma will distribute the shares of our preferred stock and Common Stock that it then owns to its members (including holders of restricted stock units) based on each member's proportionate ownership interest of Ex-Sigma at such time.

Upon the assumption of the 2013 Plan and awards thereunder by Ex-Sigma, each restricted stock unit granted pursuant to the 2013 Plan was converted into the right to receive a membership interest of Ex-Sigma, subject to the applicable vesting terms, which require, among other things, continued employment with us through the applicable vesting date. These awards generally vest ratably over three or four years based on an executive's continued employment. Given the anticipated Business Combination, no restricted stock units were granted to our named executive officers under the 2013 Plan in 2017.

*Severance Benefits*

Mr. Fairchild is a party to an employment agreement with our subsidiary, BancTec, Inc., which provides for certain payments to be made in connection with certain terminations of service, as described below. This employment agreement was in effect prior to the Business Combination and remains in effect currently in accordance with its terms. In addition, although we have not entered into written agreements providing Messrs. Cogburn, Reynolds, Yannamani or Sortur severance benefits, upon a termination of Messrs. Cogburn's, Reynolds', Yannamani's or Sortur's employment by us without cause, each of Messrs. Cogburn, Reynolds, Yannamani and Sortur would be entitled to severance benefits pursuant to SourceHOV's current severance policy equal to continued payment of

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his base salary for a period of three weeks for each year of credited service with SourceHOV and its affiliates, up to a maximum of 16 weeks. As of December 31, 2017, Messrs. Cogburn, Reynolds, Yannamani and Sortur had 24, 1, 20 and 13 years of credited service with SourceHOV and its affiliates, respectively. The SourceHOV severance policy may be amended or terminated at our discretion at any time.

*Health and Welfare Plans*

Our named executive officers are eligible to participate in our employee benefit plans, including our medical, dental, vision, life, disability, health and dependent care flexible spending accounts and accidental death and dismemberment benefit plans, in each case on the same basis as all of our other employees. We do not provide any other supplemental benefits or perquisites to our named executive officers other than those that are provided to all our employees.

*Retirement Plan*

Our named executive officers are eligible to participate in our 401(k) retirement plan on the same basis as all of our other employees. The plan provides for a discretionary employer matching contribution; but we did not make any matching contributions with respect to the 2017 or 2016 plan years.

**Other Compensation Policies and Practices**

*Insider Trading Policy*

Our Insider Trading Policy provides that employees, including our executive officers and the members of our board of directors, are prohibited from engaging in transactions in our securities if such employee possesses material, non-public information about the Company. In addition, certain covered persons must advise our General Counsel before effectuating any transaction in our securities.

*Stock Ownership Guidelines*

On December 19, 2017, our board of directors adopted stock ownership guidelines for our Chief Executive Officer, Chief Financial Officer and our other executive officers who report directly to our Chief Executive Officer, which set the minimum ownership expectations for each such executive officer. The guidelines require that within five years after first becoming subject to the guidelines (which for our named executive officers occurred on December 19, 2017), our Chief Executive Officer, Chief Financial Officer and our other executive officers who report directly to our Chief Executive Officer, should own shares of our Common Stock with a value equal to six times his or her annual base salary, three times his or her annual base salary and one and one-half times his or her annual base salary, respectively. Half of the fair market value of the shares of our Common Stock underlying vested stock options (to the extent the fair market value exceeds the applicable exercise price) and vested but deferred restricted stock units are included when determining the executive officer's stock ownership. Shares underlying unvested restricted stock units are not counted towards determining the executive officers' stock ownership. To the extent an executive covered by the stock ownership guidelines is a member of Ex-Sigma, the executive is deemed to beneficially own a proportional share of the shares of our Common Stock held by Ex-Sigma. We believe that the stock ownership guidelines serve to further align the interests of our executive officers with the interests of our stockholders.

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**Report of the Compensation Committee**

The compensation committee has reviewed and discussed with management the Compensation Discussion and Analysis set forth in this annual report on Form 10-K for the year ended December 31, 2017. Based on such review and discussions, the compensation committee recommended to the board of directors that the Compensation Discussion and Analysis be included in this annual report on Form 10-K for the year ended December 31, 2017.

Respectfully submitted,

**The Compensation Committee of the Board of Directors**
Nathaniel Lipman, Chair
John Rexford
Gordon J. Coburn

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**Summary Compensation Table**

The following table sets forth compensation information for our named executive officers for services performed for the Company and its subsidiaries for the fiscal year ended December 31, 2017, and for certain of our named executive officers, for the fiscal year ended December 31, 2016.

| Name and principal position | Year | Salary ($) | Bonus ($)(1) | Stock Awards ($) | Total ($) |
|---|---|---|---|---|---|
| Ronald C. Cogburn | 2017 | 325,000 | — | — | 325,000 |
| *Chief Executive Officer* | 2016 | 325,000 | 300,000 | 120,000 | 745,000 |
| Jim Reynolds | 2017 | 186,096(2) | — | — | — |
| *Chief Financial Officer* | | | | | |
| Suresh Yannamani | 2017 | 325,000 | — | | 325,000 |
| *President* | 2016 | 325,000 | 300,000 | 120,000 | 745,000 |
| Mark Fairchild | 2017 | 400,000 | — | — | 400,000 |
| *President, Exela Enterprise Solutions* | 2016 | 400,000 | — | — | 400,000 |
| Shrikant Sortur | 2017 | 228,365 | 83,333 | — | 311,698 |
| *Executive Vice President, Global Finance* | | | | | |

(1) The amounts reported in this column for 2016 reflect discretionary cash bonuses paid to certain of our named executive officers with respect to performance for calendar year 2016, which bonuses were paid in equal installments on each regularly scheduled payroll date between January 6, 2017 and December 22, 2017 for Mr. Cogburn, and between January 13 and December 29, 2017 for Mr. Yannamani.

(2) On January 25, 2018, our compensation committee approved a base salary for Mr. Reynolds equal to $325,000, with retroactive effect as of the consummation of the Business Combination, or July 12, 2017. The amount reported in this column for Mr. Reynolds reflects the base salary earned by him with respect to service as our Chief Financial Officer following the Business Combination during 2017, which was paid to him in the form of a lump sum catch-up payment on February 16, 2018.

(3) The amount reported represents the portion of the cash transaction bonus payable to Mr. Sortur in partial consideration for his efforts in connection with the Business Combination that was paid in 2017.

**Grant of Plan-Based Awards**

None of our named executive officers were granted awards pursuant to any plan during the fiscal year ended December 31, 2017.

**Narrative to Summary Compensation Table**

*Executive Employment Agreements*

Certain of the compensation paid to Mr. Fairchild reflected in the summary compensation table was provided pursuant to an employment agreement with our subsidiary, BancTec, Inc. Mr. Fairchild is a party to an employment agreement, dated May 2007, with BancTec, Inc., which provides for an indefinite term. Pursuant to his employment agreement, Mr. Fairchild is entitled to an annual base salary, currently $400,000 and is eligible to earn a target annual bonus equal to up to 100% of his base salary.

We have not entered into employment agreements with Messrs. Cogburn, Reynolds, Yannamani or Sortur. For a discussion of the severance pay and other benefits to be provided to our named executive

officers in connection with a termination of employment and/or a change in control under arrangements (including Mr. Fairchild's employment agreement), please see "*—Potential Payments Upon Termination or Change In Control*" below.

*Stock Plans, Health and Welfare Plans, and Retirement Plans*

*2018 Stock Incentive Plan.*

On December 19, 2017, our board of directors adopted our 2018 Stock Incentive Plan, or the Plan, which was subsequently approved on December 20, 2017 by the written consent of the holders of a majority of the shares of our Common Stock, and became effective on January 17, 2018. The Plan is administered by the compensation committee of our board of directors. Under the Plan, the compensation committee may grant an aggregate of 8,323,764 shares of our Common Stock to eligible participants in the form of stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance awards and other awards that may be settled in or based on our Common Stock. The compensation committee did not grant any awards under our Plan in 2017.

*SourceHOV Long Term Incentive Plan.*

Prior to the Business Combination, our subsidiary, SourceHOV, maintained the 2013 Long Term Incentive Plan, or the 2013 Plan. Certain of our named executive officers were granted restricted stock units pursuant to the 2013 Plan. In connection with the Business Combination, the 2013 Plan was assigned to, and assumed by, Ex-Sigma LLC, or Ex-Sigma, and all awards outstanding under the 2013 Plan were transferred to, and assumed by, Ex-Sigma. Upon such assumption, each restricted stock unit granted pursuant to the 2013 Plan was converted into the right to receive a membership interest of Ex-Sigma, subject to the applicable vesting terms, which require, among other things, continued employment with us through the applicable vesting date. For a summary of the vesting terms applicable to the restricted stock units granted to our named executive officers, see "—Outstanding Equity Awards at Fiscal Year End" below.

Ex-Sigma is a limited liability company that was formed to facilitate the raising of the funds necessary to consummate the Business Combination and is owned by the former equity holders of SourceHOV. Ex-Sigma, through its wholly-owned subsidiary Ex Sigma 2, LLC ("Ex Sigma 2"), owns 84,912,500 shares of our Common Stock and 2,669,233 shares of our preferred stock (which presently are convertible into 3,263,473 shares of Common Stock). Those shares are pledged to secure certain financing incurred in connection with the Business Combination. Upon the repayment of such financing, it is anticipated that Ex-Sigma will distribute the shares of our preferred stock and Common Stock that it then owns to its members (including holders of restricted stock units) based on each member's proportionate ownership interest of Ex-Sigma at such time.

*Health and Welfare Plans.*

Our named executive officers are eligible to participate in our employee benefit plans, including our medical, dental, vision, life, disability, health and dependent care flexible spending accounts and accidental death and dismemberment benefit plans, in each case on the same basis as all of our other employees.

*Retirement Plan.*

We sponsor a retirement plan intended to qualify for favorable tax treatment under Section 401(a) of the Internal Revenue Code of 1986, as amended, or the Code, containing a cash or deferred feature that is intended to meet the requirements of Section 401(k) of the Code. Employees who meet the eligibility requirements may make pre-tax contributions to the plan from their eligible earnings up to the statutorily prescribed annual limit on pre-tax contributions under the Code. Participants who are

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50 years of age or older may contribute additional amounts based on the statutory limits for catch-up contributions. All employee and employer contributions are allocated to each participant's individual account and are then invested in selected investment alternatives according to the participant's directions. Pre-tax contributions by participants and contributions that we make to the plan and the income earned on those contributions are generally not taxable to participants until withdrawn, and all contributions are generally deductible by us when made. Participant contributions are held in trust as required by law. No minimum benefit is provided under the plan. An employee is 100% vested in his or her pre-tax deferrals when contributed and any employer contributions ratably over four years. The plan provides for a discretionary employer matching contribution, however, we currently do not make any matching contributions to the plan and did not make any matching contributions with respect to the 2017 or 2016 plan years.

**Outstanding Equity Awards at Fiscal Year End**

The following table contains information regarding outstanding equity awards of Ex-Sigma held by our named executive officers as of December 31, 2017.

| | | Stock awards(1) | |
|---|---|---|---|
| **Name** | **Grant date** | **Number of shares or units of stock that have not vested** | **Market Value of shares or units of stock that have not vested ($)(4)** |
| Ronald C. Cogburn | April 30, 2015(2) | 475 | 676,638 |
| Ronald C. Cogburn | April 29, 2016(3) | 100 | 142,450 |
| Suresh Yannamani | April 30, 2015(2) | 25 | 35,613 |
| Suresh Yannamani | April 29, 2016(3) | 100 | 142,450 |
| Mark Fairchild | April 30, 2015(2) | 138 | 196,581 |
| Shrikant Sortur | April 29, 2016(3) | 100 | 142,450 |

(1) Stock awards represent restricted stock units in Ex-Sigma. Ex-Sigma, through its wholly-owned subsidiary Ex Sigma 2, owns 84,912,500 shares of our Common Stock and 2,669,233 shares of our preferred stock (which presently are convertible into 3,263,473 shares of Common Stock). Those shares are pledged to secure certain financing incurred in connection with the Business Combination. Upon the repayment of such financing, it is anticipated that Ex-Sigma will distribute the shares of our preferred stock and Common Stock that it then owns to its members (including holders of restricted stock units) based on each member's proportionate ownership interest of Ex-Sigma at such time.

(2) The restricted units are subject to the following vesting schedule: one-fourth of the restricted stock units vest on each of the first four anniversaries of the vesting commencement date, or April 30, 2015, subject to continued employment with us through such date. In addition, if the grantee's employment is terminated without cause (other than as a result of death or disability) following the occurrence of a change in control of Ex-Sigma, all unvested restricted stock units will immediately vest.

(3) The Restricted stock units are subject to the following vesting schedule: one-third of the restricted stock units vest on each of the first three anniversaries of the vesting commencement date, or April 29, 2016, subject to continued employment with us through such date. In addition, if the grantee's employment is terminated without cause (other than as a result of death or disability) following the occurrence of a change in control of Ex-Sigma, all unvested restricted stock units will immediately vest.

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(4) The amounts disclosed in this column represent the value of the membership interests underlying each restricted stock unit that had not vested as of December 31, 2017, based on each member's (including each holder of restricted stock units) proportionate ownership of Ex-Sigma at such time and the closing price of our Common Stock on December 29, 2017, or $5.15, which was the final day in the fiscal year ended December 31, 2017 on which our Common Stock was traded.

**Option Exercises and Stock Vested Table**

The following table sets forth information concerning the vesting of stock awards in Ex-Sigma held by our named executive officers during the fiscal year ended December 31, 2017.

| | Stock Awards | |
|---|---|---|
| Name | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting ($)(1)(2) |
| Ronald C. Cogburn | 627 | 1,003,200 |
| Suresh Yannamani | 402 | 643,200 |
| Mark Fairchild | 69 | 110,400 |
| Shrikant Sortur | 50 | 80,000 |

(1) Settlement of each of the restricted stock units that vested during 2017 is deferred pursuant to the terms of the applicable agreement until the earlier to occur of (x) the fifth anniversary of the applicable date of grant, and (y) a change in control of Ex-Sigma. All restricted stock units noted in the table above for each named executive officer vested during fiscal year 2017, but the underlying membership interests of Ex-Sigma were not delivered to or acquired by the executive as of the end of fiscal year 2017.

(2) The amounts reported in this column represent the value of the Ex-Sigma membership interests underlying the applicable restricted stock unit at the time the restricted stock units vested in accordance with their terms. Each relevant vesting event during 2017 occurred prior to the consummation of the Business Combination, at which time each share of SourceHOV Common Stock had a fair market value of $1,600 per share. Each restricted stock unit currently represents the right to receive a membership interest in Ex-Sigma. Ex-Sigma, through its wholly-owned subsidiary Ex Sigma 2, owns 84,912,500 shares of our Common Stock and 2,669,233 shares of our preferred stock (which presently are convertible into 3,263,473 shares of Common Stock). Those shares are pledged to secure certain financing incurred in connection with the Business Combination. Upon the repayment of such financing, it is anticipated that Ex-Sigma will distribute the shares of our preferred stock and Common Stock that it then owns to its members (including holders of restricted stock units) based on each member's proportionate ownership interest of Ex-Sigma at such time.

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**Non-Qualified Deferred Compensation**

The following table sets forth information for our named executive officers with respect to Ex-Sigma restricted stock units held by our named executive officers as of December 31, 2017 that were vested but for which the underlying Ex-Sigma membership interests had not yet been delivered to the executive due to a deferral required by the applicable award agreements.

| Name | Executive Contributions in Fiscal Year 2017 ($)(1) | Aggregate Earnings in Fiscal Year 2017 ($)(2) | Aggregate Withdrawals/ Distributions ($) | Aggregate Balance at 2017 Fiscal Year End ($)(3) |
|---|---|---|---|---|
| Ronald C. Cogburn | 1,003,200 | (330,116) | — | 2,679,485 |
| Suresh Yannamani | 643,200 | (251,141) | — | 2,038,460 |
| Mark Fairchild | 110,400 | (24,131) | — | 195,157 |
| Shrikant Sortur | 80,000 | (8,775) | — | 71,225 |

(1) The amounts reported in this column represent the value of the Ex-Sigma membership interests underlying the applicable restricted stock unit that vested during 2017 as reported in the *Option Exercises and Stock Vested Table* above. All membership interests underlying the deferred restricted stock unit awards will be released to Messrs. Cogburn, Yannamani, Fairchild, and Sortur, upon the earlier to occur of (x) the fifth anniversary of the applicable date of grant, and (y) a change in control of Ex-Sigma LLC.

(2) Represents the change in market value of the membership interests underlying the deferred restricted stock units held by the executives as of the last day of fiscal year 2017, calculated as the difference between: (a) the value of the restricted stock units on the applicable vesting date (for restricted stock units vesting during fiscal year 2017) (at which time each share of SourceHOV Common Stock had a fair market value of $1,600 per share), or the first day of fiscal year 2017 (for restricted stock units that vested during prior fiscal years) (at which time each share of SourceHOV Common Stock had a fair market value of $1,600 per share), and (b) the value on December 31, 2017, the last day of fiscal year 2017 (at which time each Ex-Sigma membership interest had a fair market value of $1,424.50). No additional earnings (either in the form of accrued dividends or dividend equivalents) are paid or accrued on deferred restricted stock units.

(3) The amounts disclosed in this column represent the value of the membership interests underlying each deferred restricted stock unit as of December 31, 2017, based on each member's (including each holder of restricted stock units) proportionate ownership of Ex-Sigma at such time and the closing price of our Common Stock on December 29, 2017, or $5.15, which was the final day in the fiscal year ended December 31, 2017 on which our Common Stock was traded.

**Pension Benefits**

None of our named executive officers participates in or has account balances in qualified or non-qualified defined benefit plans sponsored by us.

**Potential Payments Upon Termination or Change in Control**

The following summaries describe the potential payments and benefits that we would provide to our named executive officers in connection with a termination of employment and/or a change in control.

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***Severance Benefits***

Mr. Fairchild's employment agreement provides for certain payments to be made in connection with certain terminations of service, as further described below. In addition, although we have not entered into written agreements providing Messrs. Cogburn, Reynolds, Yannamani or Sortur severance benefits, upon a termination of Messrs. Cogburn, Reynolds, Yannamani or Sortur's employment by us without cause, each of Messrs. Cogburn, Reynolds, Yannamani and Sortur would be eligible for severance benefits pursuant to SourceHOV's current severance policy equal to continued payment of his base salary for a period of three weeks for each year of service, up to a maximum of 16 weeks. The SourceHOV severance policy may be amended or terminated at any time in our sole discretion.

*Mark Fairchild.* In the event that Mr. Fairchild's employment is terminated either by BancTec, Inc. without "cause" or by him for "good reason," subject to the his execution of a release of claims, Mr. Fairchild would be entitled to: (i) one years' base salary and one times his target annual bonus; (ii) payment of the employee and employer portion of his COBRA premiums until the earlier of 18 months following such termination and when he is employed by an employer who offers welfare benefits; and (iii) immediate vesting of all outstanding equity awards. In the event Mr. Fairchild's employment is terminated either by BancTec, Inc. without "cause" at the request of any third party in connection with a "change in control" or by him for "good reason," within one year following a "change in control," in addition to the severance benefits described in the previous sentence, he would also be entitled to a pro-rated bonus for the year of termination.

In the event any payments paid pursuant Mr. Fairchild's employment agreement are subject to an excise tax under Section 4999 of the Code, or any similar tax that may be imposed, he is entitled to an additional gross-up payment such that the net amount retained by him equals the amount he would have been entitled to had no such tax been imposed on the payments. Following any termination of employment, Mr. Fairchild is subject to a non-solicit of employees and customers for a period of one-year following his termination.

***Vesting and Settlement of Outstanding Equity Awards***

Each of Messrs. Cogburn, Yannamani, Fairchild and Sortur hold restricted stock units, which represent the right to receive membership interests in Ex-Sigma. Ex-Sigma, through its wholly-owned subsidiary Ex Sigma 2, owns 84,912,500 shares of our Common Stock and 2,669,233 shares of our preferred stock (which presently are convertible into 3,263,473 shares of Common Stock). Those shares are pledged to secure certain financing incurred in connection with the Business Combination. Upon the repayment of such financing, it is anticipated that Ex-Sigma will distribute the shares of our preferred stock and Common Stock that it then owns to its members (including holders of restricted stock units) based on each member's proportionate ownership interest of Ex-Sigma at such time.

The vesting and settlement of each of Messrs. Cogburn, Yannamani, Fairchild and Sortur's restricted stock units will be accelerated in certain instances upon or following a change in control of Ex-Sigma. With respect to the restricted stock units granted to each of Messrs. Cogburn and Yannamani on November 6, 2013, all of the restricted stock units underlying such grants are currently vested and such restricted stock units will be settled on the earlier of (i) the occurrence of a change in control of Ex-Sigma, and (ii) the fifth anniversary of the date of grant.

All of the then unvested restricted stock units granted to each of Messrs. Cogburn, Yannamani and Fairchild on April 30, 2015 and to Messrs. Cogburn, Yannamani and Sortur on April 29, 2016 will vest if, following the occurrence of a change in control of Ex-Sigma, the grantee's employment with us and our subsidiaries is terminated without cause (other than as a result of death or disability). In addition, such restricted stock units will be settled on the earlier of (i) the occurrence of a change in control of Ex-Sigma, and (ii) the fifth anniversary of the date of grant; provided, that, following a change in control of Ex-Sigma, each restricted stock unit that is not vested as of the date of such change in

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control will be settled on the earlier to occur of (i) the date on which such restricted stock unit vests (disregarding any accelerated vesting on account of a termination without cause), and (ii) if the grantee's employment is terminated without cause (other than as a result of the grantee's death or disability) within two years following the occurrence of such change in control of Ex-Sigma, the date of such termination.

The table below reflects the amount of compensation and benefits payable to each named executive officer in the event of (i) an involuntary termination without "cause" or, with respect to Mr. Fairchild, a resignation for "good reason" and (ii) an involuntary termination without "cause" following a change in control. The amounts shown assume that the applicable triggering event occurred on December 31, 2017, and therefore are estimates of the amounts that would be paid to the named executive officers upon the occurrence of such triggering event.

| | | Triggering Event | |
|---|---|---|---|
| Name | Type of Payment | Involuntary Termination ($) | Involuntary Termination following a Change in Control ($) |
| Ronald C. Cogburn | Cash severance | 100,000(1) | 100,000(1) |
| | Benefit continuation | — | — |
| | Equity acceleration | — | 819,088(3) |
| | TOTAL | 100,000 | 919,088 |
| Jim Reynolds | Cash severance | 25,000(1) | 25,000(1) |
| | Benefit continuation | — | — |
| | Equity acceleration | — | — |
| | TOTAL | 25,000 | 25,000 |
| Suresh Yannamani | Cash severance | 100,000(1) | 100,000(1) |
| | Benefit continuation | — | — |
| | Equity acceleration | — | 178,063(3) |
| | TOTAL | 100,000 | 278,063 |
| Mark Fairchild | Cash severance | 800,000(1) | 1,200,000(1) |
| | Benefit continuation | 31,072(2) | 31,072(2) |
| | Equity acceleration | — | 196,581(3) |
| | Gross-up | — | — |
| | TOTAL | 831,072 | 1,427,653 |
| Shrikant Sortur | Cash Severance | 86,154(1) | 86,154(1) |
| | Benefit continuation | — | — |
| | Equity acceleration( | — | 142,450(3) |
| | TOTAL | 86,154 | 228,604 |

(1) Represents the value of base salary continuation for twelve months, in the case of Mr. Fairchild, and for a period of three weeks for each year of service, up to a maximum of 16 weeks, in the case of our other named executive officers and, for Mr. Fairchild, one times his target annual bonus and for an involuntary termination following a change in control, and a pro-rated bonus for the year of such termination.

(2) Represents the value of payment of the employee and employer portion of Mr. Fairchild's COBRA premiums for 18 months.

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(3) Includes the value of accelerated vesting of all outstanding restricted stock units, which our named executive officers are entitled to upon an involuntary termination without "cause" (other than due to death or disability) following a change in control, based on each member's (including each holder of a restricted stock unit) proportionate ownership of Ex-Sigma at such time and the closing price of our Common Stock on December 29, 2017, or $5.15, which was the final day in the fiscal year ended December 31, 2017 on which our Common Stock was traded.

**Director Remuneration**

**Director Compensation Policy**

For 2017, certain members of our board of directors received a pro-rated cash payment for services rendered in the 2017 calendar year. On December 19, 2017, our board of directors approved the director compensation policy. This compensation policy provides that each non-employee director will receive the following compensation for service on our board of directors:

**Director Compensation Policy**

| | Annual Retainer ($) |
|---|---|
| Annual Cash Retainer for Board Membership | 75,000 |
| Annual Cash Retainer for Board Chairman | 185,000 |
| Audit Committee Member (other than the Chair) | 20,000 |
| Audit Committee Chair | 30,000 |
| Compensation Committee Member (other than the Chair) | 12,500 |
| Compensation Committee Chair | 20,000 |
| Nominating and Corporate Governance Committee | 12,500 |
| Nominating and Corporate Governance Committee Chair | 20,000 |

Each member of the audit committee, compensation committee and nominating and corporate governance committee will also receive $2,000 per committee meeting, if in any one year there are greater than four audit, compensation or nominating and corporate governance committee meetings, as applicable. Our board of directors also approved a one-time cash retainer for the chairman of our disclosure transition committee of $20,000. In addition, if there are greater than four disclosure transition committee meetings following December 19, 2017, each non-employee director who is a member of such committee will also receive $2,000 per committee meeting.

In addition, each non-employee director (other than the chairman of our board of directors) will receive (i) a one-time initial award of equity interests with a grant date fair value of $150,000, which award vests ratably over a three-year period and (ii) an annual award of equity interests of $110,000, which award vests immediately prior to the first annual meeting subsequent to the date of grant. The chairman of our board of directors will receive (x) a one-time initial award of equity interests of $200,000, which award vests ratably over a three-year period and (y) an annual award of equity interests of $140,000, which award vests immediately prior to the first annual meeting subsequent to the date of grant. The amount of any equity award will be determined by dividing the fair value of the award by the most recent closing price of our Common Stock (rounded down to the nearest whole share) immediately preceding the date of grant. Any non-employee director who is a representative of Apollo Management Holdings, L.P. or any of its subsidiaries (but excluding any portfolio companies of funds or accounts managed or advised thereby) is not eligible to receive any fees or equity awards pursuant to the director compensation policy.

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**All Other Compensation**

We reimburse our directors for reasonable and necessary out-of-pocket expenses incurred in attending board and committee meetings or performing other services for us in their capacities as directors.

**Director Compensation Table**

The following table sets forth information concerning director compensation for services performed during the year ended December 31, 2017.

| Name | Fees earned or paid in cash ($)(1) | Total ($) |
|---|---|---|
| Par Chadha | 94,602 | 94,602 |
| Nathaniel Lipman | 64,665 | 64,665 |
| Gordon Coburn | 61,073 | 61,073 |
| Matthew Nord(2) | — | — |
| Joshua Black(2) | — | — |
| John Rexford | 56,283 | 56,283 |

(1) Each of our directors was appointed as a member of our board of directors in connection with the close of the Business Combination. As such, amounts reflected in this column show the fees earned or paid in cash for service on our board of directors from and after the close of the Business Combination. No fees were paid to our directors for service prior to the close of the Business Combination.

(2) Messrs, Nord and Black are the Apollo Management Holdings, L.P. representatives, and therefore did not earn or receive any fees in respect of service on our board of directors during the 2017 calendar year.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

*Securities Authorized for Issuance Under Equity Compensation Plans*

The following table provides information as of December 31, 2017, with respect to the shares of our Common Stock that may be issued under our existing equity compensation plans.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, RSU, Warrants and Rights (a) | Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(1) (Excluding Securities Reflected in Column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by stockholders | — | — | — |
| Equity compensation plans not approved by stockholders | — | — | — |
| Total | — | — | — |

(1) The Company currently maintains the 2018 Stock Incentive Plan, which was approved by our board of directors on December 20, 2017 and subsequently approved by a majority of our stockholders by

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written consent on December 20, 2017. The 2018 Stock Incentive Plan became effective on January 17, 2018 and there are 8,323,764 shares of our Common Stock reserved for issuance under our 2018 Stock Incentive Plan

*Principal Holders of Common Stock*

The following table shows, based upon filings made with the Company, certain information as of March 16, 2018 concerning persons who may be deemed beneficial owners of 5% or more of the outstanding shares of Common Stock because they possessed or shared voting or investment power with respect to the shares of Common Stock.

| Name and Address | Amount and Nature of Beneficial Ownership | Percent of Class(1) |
|---|---|---|
| Various entities affiliated with Apollo Novitex Holdings, L.P.(2) 9 West 57th Street, 43rd Floor, New York, NY 10019 | 28,647,136 | 17.9% |
| Various entities affiliated with Ex-Sigma 2 LLC(3) 8550 West Desert Inn Road, Suite 102-452, Las Vegas, NV 89117 | 89,425,973(4) | 55.8% |
| Rotation Capital Management, LP(5) 489 Fifth Avenue, 11th Floor, New York, NY 10017 | 10,806,485 | 6.7% |
| Greenlight Capital, Inc.(6) 140 East 45th Street, 24th Floor, New York, New York 10017 | 8,384,629 | 5.2% |

(1) Percent of class refers to percentage of class beneficially owned as the term beneficial ownership is defined in Rule 13d-3 under the Securities Exchange Act and is based upon the 152,565,218 shares of Common Stock outstanding and 7,573,066 shares of Common Stock issuable upon conversion of the Series A Preferred Stock as of March 16, 2018.

(2) Information based on Amendment Number 1 to Schedule 13D (the ``13D"), filed with the SEC on October 10, 2017, relating to securities held of record by Apollo Novitex Holdings, L.P., a Delaware limited partnership (``Novitex Holdings"). Novitex Parent GP, LLC ("Novitex GP") is the general partner of Novitex Holdings. Apollo Management VII, L.P. ("Management VII") is the manager of Novitex GP, and AIF VII Management, LLC ("AIF VII LLC") is the general partner of Management VII. Apollo Management, L.P. ("Apollo Management") is the sole member-manager of AIF VII LLC, and Apollo Management GP, LLC ("Apollo Management GP") is the general partner of Apollo Management. Apollo Management Holdings, L.P. ("Management Holdings") is the sole member-manager of Apollo Management GP, and Apollo Management Holdings GP, LLC ("Management Holdings GP") is the general partner of Management Holdings. Leon Black, Joshua Harris and Marc Rowan are the managers, as well as executive officers, of Apollo Management Holdings GP and as such may be deemed to have voting and dispositive control of the shares of Common Stock held by Novitex Holdings. The address of each of Novitex Holdings, Novitex GP, Management VII, AIF VII LLC, Apollo Management, Apollo Management GP, Management Holdings and Management Holdings GP, and Messrs. Black, Harris and Rowan is 9 West 57th Street, 43rd Floor, New York, New York.

(3) Information based on a Schedule 13D, filed with the SEC on July 24, 2017, by HOVS LLC, HandsOn Fund 4 I LLC, HOV Capital III LLC, HOV Services Ltd., Adesi 234 LLC, HOF 2 LLC, Ex-Sigma 2 LLC, Ex-Sigma LLC, HandsOn Global Management LLC, and Par Chadha (collectively, the "HGM Reporting Persons") and includes 1,250,000 shares of Common Stock held directly by HandsOn Global Management LLC. According to the Schedule 13D, Mr. Chadha may be deemed to be the beneficial owner of, and he has shared power to vote and dispose of, the aggregate 89,425,973 shares of Common Stock held by the HGM Reporting Persons.

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(4) Share totals and ownership percentage include 3,263,473 shares of Common Stock issuable upon the conversion of 2,669,233 shares of Series A Preferred Stock. Ex-Sigma 2 LLC, a Delaware limited liability company ("Ex-Sigma 2"), directly owns 84,912,500 shares of Common Stock and 2,669,233 shares of Series A Convertible Preferred Stock, which may be converted into 3,262,474 shares of Common Stock. Ex-Sigma LLC ("Ex-Sigma") is the sole equityholder of Ex-Sigma 2. HOVS LLC, a Delaware limited liability company ("HOVS"), HandsOnFund 4 I LLC, a Nevada limited liability company ("HOF 4"), HOV Capital III, LLC, a Nevada limited liability company ("HOV 3"), each directly own interests in Ex-Sigma. HOVS is a wholly-owned subsidiary of HOV Services Ltd., an Indian limited company ("HOV Services"). Adesi 234 LLC, a Nevada limited liability company ("Adesi"), and HOF 2 LLC, a Nevada limited liability company ("HOF 2"), together own a majority of the equity interests of HOV 3. HandsOn Global Management, LLC, a Delaware limited liability company ("HGM"), owns 1,250,000 shares of Common Stock. Mr. Par Chadha may be deemed to control HGM , Ex-Sigma 2, Ex-Sigma, HOVS, HOF 4, HOV 3, Adesi, and HOF 2 LLC and each may be deemed to share beneficial ownership of the shares of Common Stock. In connection with the Business Combination, HOVS, HOF 4 and certain of their affiliates entered into a Director Nomination Agreement with the Company pursuant to which HOVS, HOF 4 and certain of their affiliates are entitled to nominate a certain number of directors to the board of the Company based on ownership thresholds in the Company. Mr. Par Chadha is currently Chairman of the board of the Company. The principal business address of Ex-Sigma 2 and HGM is 8550 West Desert Inn Road, Suite 102-452, Las Vegas, NV 89117.

(5) Information based on a Schedule 13G, filed with the SEC on February 9, 2018, by Rotation Capital Management, LP (the "Investment Manager") and Matthew Rothfleisch. According to the Schedule 13G, the Investment Manager serves as the investment manager to the Rotation Capital Credit Opportunities Fund, Ltd. The general partner of the Investment Manager is Rotation Capital Partners, LLC (the "General Partner"). Mr. Rothfleisch is the managing member of the General Partner. Mr. Rothfleisch expressly disclaims beneficial ownership of the shares of Common Stock.(6) Information based on Schedule 13G, filed with the SEC on February 14, 2018, by Greenlight Capital, Inc., a Delaware corporation ("Greenlight Inc."), DME Advisors, LP, a Delaware limited partnership ("DME Advisors"), DME Capital Management, LP, a Delaware limited partnership ("DME CM"), DME Advisors GP, LLC, a Delaware limited liability company ("DME GP" and together with Greenlight Inc., DME Advisors and DME CM, "Greenlight"), and Mr. David Einhorn, the principal of Greenlight (collectively with Greenlight, the "Greenlight Reporting Persons"). Pursuant to Rule 13d-4, each of the Greenlight Reporting Persons disclaims all such beneficial ownership except to the extent of its pecuniary interest in any shares of Common Stock, if applicable.

*Common Stock Ownership by Directors and Executive Officers*

The following table presents the number of shares of Common Stock beneficially owned by the directors, the nominees for director, the named executive officers and all directors, nominees for

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director and named executive officers as a group as of March 16, 2018. Individuals have sole voting and dispositive power over the stock unless otherwise indicated in the footnotes.

| Name of Individual | Amount and Nature of Beneficial Ownership | Percent of Class(1) |
|---|---|---|
| Par Chadha(2) | 89,425,973 | 55.8% |
| Ronald Cogburn(3) | — | * |
| Jim Reynolds(4) | — | * |
| Matthew H. Nord(5) | — | * |
| Joshua M. Black(5) | — | * |
| Nathaniel J. Lipman | 30,754 | * |
| Gordon J. Coburn | — | * |
| John H. Rexford | 27,000 | * |
| Suresh Yannamani | — | * |
| Mark Fairchild | — | * |
| Shrikant Sortur | — | * |
| All directors, named executive officers and other executive officers as a group (11 persons) | 89,483,727 | 55.8% |

* Represents holdings of less than one percent.

(1) Percent of class refers to percentage of class beneficially owned as the term beneficial ownership is defined in Rule 13d-3 under the Securities Exchange Act of 1934 and is based upon the 152,565,218 shares of Common Stock outstanding and 7,573,066 shares of Common Stock issuable upon conversion of the Series A Preferred Stock as of March 16 2018.

(2) The business address of Mr. Chadha is 8550 West Desert Inn Road, Suite 102-452, Las Vegas, NV 89117. Mr. Chadha is a member of HGM or its affiliates and may be deemed to beneficially own the shares of Common Stock and Series A Perpetual Convertible Preferred Stock beneficially owned by HGM or its affiliates under Rule 13d-3. Mr. Chadha disclaims beneficial ownership of any such shares beneficially owned by HGM, except to the extent of his pecuniary interest therein. See "Ownership of Voting Common Stock—Principal Holders of Voting Common Stock" above.

(3) Mr. Cogburn is affiliated with HGM or its affiliates. Mr. Cogburn disclaims beneficial ownership of shares of Common Stock that are owned by HGM or its affiliates.

(4) Mr. Reynolds is affiliated with HGM or its affiliates. Mr. Reynolds disclaims beneficial ownership of shares of Common Stock that are owned by HGM or its affiliates.

(5) Messrs. Nord and Black are each affiliated with Apollo or its affiliated investment managers and advisors. Messrs. Nord and Black each disclaim beneficial ownership of the shares of Common Stock that are owned by Apollo. The address of Messrs. Nord and Black is c/o Apollo Global Management, LLC, 9 West 57th Street, 43rd Floor, New York, NY 10019.

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## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

**Certain Relationships and Related Transactions**

We have adopted a written policy requiring that any related person transaction that would require disclosure under Item 404(a) of Regulation S-K under the Exchange Act be reviewed and approved by our audit committee or, if the audit committee is not able to review the transaction for any reason, the chairman of the audit committee. Compensation matters regarding our executive officers or directors are reviewed and approved by our compensation committee. The policy also provides that, at least annually, any such ongoing, previously approved related person transaction is to be reviewed by the audit committee to ensure that the transaction is in compliance with the audit committee's guidelines and that the transaction remains appropriate. All relevant factors with respect to a proposed related person transaction will be considered, and such a transaction will only be approved if it is in our and our stockholders' best interests. Related persons include our major stockholders and directors and officers, as well as immediate family members of directors and officers.

During 2017, Exela entered into the following transactions with related persons that are required to be reported under the SEC's rules:

*Registration Rights Agreement*

In connection with the closing of the Business Combination on July 12, 2017, the Company and certain stockholders, including certain entities affiliated with each of HGM and Apollo, entered into an Amended and Restated Registration Rights Agreement (the "Registration Rights Agreement"). Under the Registration Rights Agreement, certain stockholders, including affiliates of HGM and Apollo, and their permitted transferees are entitled to certain registration rights described in the Registration Rights Agreement. Among other things, pursuant to the Registration Rights Agreement, affiliates of each of HGM and Apollo are each entitled to participate in five demand registrations, and also have certain "piggyback" registration rights with respect to registration statements filed subsequent to the Business Combination. In addition, Ex-Sigma, an affiliate of HGM, has the right to request up to three demand registrations for the purpose of generating proceeds to repay financing it received in connection with the closing of the Business Combination. We will bear the expenses incurred in connection with the filing of any such registration statements, other than underwriting discounts and selling commissions.

Messrs. Chadha, Cogburn, and Reynolds are each affiliated with HGM and Messrs. Black and Nord are each affiliated with Apollo. Messrs. Cogburn and Reynolds received compensation from Exela as executive officers of Exela. See "Executive Compensation" above.

*Director Nomination Agreements*

At the closing of the Business Combination, the Company entered into a Director Nomination Agreement (the "Director Nomination Agreement") with each of Novitex Holdings, an affiliate of Apollo, and certain affiliates of HOVS LLC and HandsOn Fund 4 I, LLC, affiliates of HGM (each a "Nominating Stockholder"), which will remain in effect for so long as the applicable Nominating Stockholder (or Nominating Stockholder's affiliate) continues to beneficially own at least 5% of the then outstanding shares of our Common Stock (without giving effect to the exercise of any outstanding warrants to purchase our Common Stock). The Director Nomination Agreements require that the individuals nominated for election as directors by our board of directors shall include a number of individuals selected by each of the Nominating Stockholders such that, upon the election of each such individual, and each other individual nominated by or at the direction of our board of directors or a duly-authorized committee of the Board, as a director of our Company, the individuals selected by each Nominating Stockholder (or Nominating Stockholder's affiliate) shall be: (i) solely with respect to the

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Director Nomination Agreement with certain affiliates of HOVS LLC and HandsOn Fund 4 I, LLC, for so long as the applicable Nominating Stockholder beneficially owns at least 35% of the then outstanding shares of our Common Stock (without giving effect to the exercise of any outstanding warrants to purchase our Common Stock), three directors; (ii) for so long as the applicable Nominating Stockholder beneficially owns at least 15%, but less than 35%, of the then outstanding shares of Common Stock (without giving effect to the exercise of any outstanding warrants to purchase our Common Stock), two directors; and (iii) for so long as the applicable Nominating Stockholder (or Nominating Stockholder's affiliate) beneficially owns at least 5%, but less than 15%, of the then outstanding shares of our Common Stock (without giving effect to the exercise of any outstanding warrants to purchase our Common Stock), one director. In the case of a vacancy on our board of directors created by the removal or resignation of an individual selected for nomination by a Nominating Stockholder (or Nominating Stockholder's affiliate), the Director Nomination Agreements require us to appoint another individual selected by the applicable Nominating Stockholder. The Director Nomination Agreements also provide for observation rights for each Nominating Stockholder (or Nominating Stockholder's Affiliate) to the extent that it has a right of nomination that it does not utilize.

In addition, the Director Nomination Agreements provide that for so long as a Nominating Stockholder continues to beneficially own at least 15% of the then outstanding shares of our Common Stock (without giving effect to the exercise of any outstanding warrants to purchase our Common Stock), we cannot, without the consent of such Nominating Stockholder, engage in certain related-party transactions, adopt an equity incentive plan or amend the same to increase the number of securities that may be granted thereunder, issue certain equity securities, including with a fair market value of more than $100 million, amend our certificate of incorporation or bylaws in a manner that adversely affects such Nominating Stockholder's rights under the applicable Director Nomination Agreement or has a disproportionate impact on the interests of such Nominating Stockholder, enter into certain new lines of business, or increase or decrease the size of the board of directors or change the classes on which the members of the board of directors serve. For additional information on ownership of each of the Nominating Stockholders, see section entitled "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters—Principal Holders of Common Stock."

*PIPE Investment*

In connection with the financing of the Business Combination, Ex-Sigma committed to fund up to $57.5 million of the private placement of shares of Exela Common Stock and Series A Perpetual Convertible Preferred Stock (the "PIPE Investment"). In connection therewith, Ex-Sigma entered into a financing arrangement pursuant to which Ex-Sigma, through its wholly-owned subsidiary Ex Sigma 2, LLC, or Ex-Sigma 2, borrowed $57.5 million (the "Ex-Sigma Financing") and pledged to the lenders thereunder 2,669,233 shares of Series A Perpetual Convertible Preferred Stock and 4,312,500 shares of Exela Common Stock acquired by Ex-Sigma in the PIPE Investment and the 80,600,000 shares of Exela Common Stock acquired by Ex-Sigma in the Business Combination. As the Ex-Sigma Financing was undertaken to facilitate consummation of the Business Combination, the Company agreed to pay the fees and expenses of the lenders thereunder associated with the incurrence of the Ex-Sigma Financing and to issue up to 821,429 shares of Exela Common Stock to the lenders thereunder as a fee under the loan agreement. The Company also paid certain expenses associated with the conversion of restricted equity awards in SourceHOV becoming restricted equity awards in Ex-Sigma.

*Real Estate*

HOV RE, LLC, an affiliate through common interest held by certain shareholders, leases a property in Antioch, California to HOVG LLC (aka Bay Area Credit Service LLC) and HOV Services, Inc., pursuant to two lease agreements entered into on December 1, 2008 and September 1,

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2010, respectively. Additionally, pursuant to a tripartite lease agreement dated November 14, 2016, HOV Services Limited, as landlord, rents to BancTec TPS India Private Limited, as lessee, and TransCentra FTS Private Limited, as sub-lessee, a property in Vashi, Navi Mumbai, India. The rental expense for these premises was $0.7 million, $0.6 million and $0.2 million for the years ended December 31, 2017, 2016 and 2015, respectively.

*Services*

HOV Services, Ltd., a former shareholder of SourceHOV who currently owns equity interest in the Company through Ex-Sigma, provides the Company data capture and technology services. The expense recognized for these services was approximately $1.7 million, $1.7 million, and $1.4 million for the years ended December 31, 2017, 2016, and 2015, respectively.

SourceHOV licenses the use of the trademark "HOV" on a non-exclusive basis from HOF 2 LLC pursuant to a trademark license agreement dated April 29, 2011.

Pursuant to a master agreement dated January 1, 2015 between Rule 14, LLC and SourceHOV, the Company incurred marketing fees to Rule 14, LLC, a portfolio company of HGM, of $0.6 million and $0.5 million for the years ended December 31, 2017 and 2016, respectively. No expenses were incurred for the year ended December 31, 2015.

SourceHOV is party to ten master agreements with entities affiliated with HGM's ventures portfolio, each of which were entered into during 2015 and 2016. Each master agreement provides SourceHOV with free use of technology and includes a reseller arrangement pursuant to which SourceHOV is entitled to sell these services to third parties. Any revenue earned by SourceHOV in such third-party sale is shared 75%/25% with each of HGM's venture affiliates in favor of SourceHOV. The brands Zuma, Athena, Peri, BancMate, Spring, Jet, Teletype, CourtQ and Rewardio are part of the HGM ventures portfolio. SourceHOV has the license to use and resell such brands, as described therein.

*Relationship with HGM*

The Company incurred management fees to HGM, SourceHOV's former owner, of $6.0 million for all years ended December 31, 2017, 2016, and 2015. The contract with HGM was terminated upon consummation of the Business Combination, and no fees were payable after July 12, 2017.

The Company incurred reimbursable travel expenses to HGM of $0.9 million, $1.7 million, and $0.8 million for the years ended December 31, 2017, 2016, and 2015, respectively.

*Consulting Agreements*

The Company receives services from Oakana Holdings, Inc. The Company and Oakana Holdings, Inc. are related through a family relationship between certain shareholders and the president of Oakana Holdings, Inc. The expense recognized for these services was approximately $0.1 million for the year ended December 31, 2017.

The Company receives consulting services from Shadow Pond, LLC. Shadow Pond, LLC is wholly-owned and controlled by Vik Negi, our Executive Vice President Treasury and Business Affairs. The consulting arrangement was established to compensate Mr. Negi for his services to the Company prior to becoming an employee. The expense recognized for these services was approximately $0.5 million, $0.5 million, and $0.2 million for the years ended December 31, 2017, 2016 and 2015, respectively. We expect the consulting arrangement with Shadow Pond, LLC to terminate on April 1, 2018 and for Mr.Negi to continue to provide services as an employee of the Company.

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*Relationship with Apollo*

The Company provides services to and receives services from certain companies controlled by investment funds affiliated with Apollo.

In April 2016, the Company's subsidiary, Novitex Enterprise Solutions, Inc. ("Novitex Solutions") entered into a master services agreement with Presidio Networked Solutions Group, LLC ("Presidio Group"), a wholly-owned subsidiary of Presidio, Inc., a portion of which is owned by affiliates of Apollo and with a common Apollo designated director. Pursuant to this master services agreement, Presidio Group provides Novitex Solutions with employees, subcontractors, and/or goods and services. For the year ended December 31, 2017 there were related party expenses of $0.3 million for this service.

On November 18, 2014, Novitex Solutions, entered into a master services agreement with Management Holdings, an indirect wholly-owned subsidiary of Apollo. Pursuant to this master services agreement, Novitex Solutions provides Management Holdings printer supplies and maintenance services, including toner maintenance, training, quarterly business review and printer procurement. The Company recognized revenue from Apollo Holdings under this agreement of approximately $0.3 million in 2017.

On January 18, 2017, Novitex Solutions entered into a master purchase and professional services agreement with Caesars Enterprise Services, LLC ("Caesars"). Caesars is controlled by investment funds affiliated with Apollo. Pursuant to this master purchase and professional services agreement, Novitex Solutions provides managed print services to Caesars, including general equipment operation, supply management, support services and technical support. The Company recognized revenue from Caesars under this master purchase and professional services agreement of approximately $1.2 million for the year ended December 31, 2017.

On May 5, 2017, Novitex Solutions entered into a master services agreement with ADT LLC. ADT LLC is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Novitex Solutions provides ADT LLC with mailroom and onsite mail delivery services at an ADT LLC office location and managed print services, including supply management, equipment maintenance and technical support services. The Company recognized revenue from ADT LLC under this master services agreement of less than $0.1 million for the year ended December 31, 2017.

On July 20, 2017, Novitex Solutions entered into a master services agreement with Diamond Resorts Centralized Services Company. Diamond Resorts Centralized Services Company is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Novitex Solutions provides commercial print and promotional product procurement services to Diamond Resorts Centralized Services Company, including sourcing, inventory management and fulfillment services. The Company did not recognize revenue from Diamond Resorts Centralized Services Company under this master services agreement during the year ended December 31, 2017, however it is expected to realize revenues in excess of the reporting thresholds for 2018.

*Employment Relationships*

We have entered into or propose to enter into the following related party employment relationships: Matt Reynolds, the brother of our chief financial officer, is employed as our Vice President—Finance, and is expected to receive to a base salary of $162,567 and may be eligible for additional incentive compensation for 2018; and Andrej Jonovic, the son-in-law of the chairman of our board of directors, is expected to be employed as our Executive Vice President, Business Strategy and Corporate Affairs and is expected to receive to a base salary of $300,000 and may be eligible for additional incentive compensation for 2018.

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**Director Independence**

The Company's Common Stock is listed on the Nasdaq Stock Market, and the Company complies with the Nasdaq listing requirements regarding independent directors. Under Nasdaq's Marketplace Rules, the definition of an "independent director" is a person other than an executive officer or employee of the company or any other individual having a relationship which, in the opinion of the issuer's board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Our board of directors has reviewed such information as it has deemed appropriate for purposes of determining whether any of the directors has a relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director, including the beneficial ownership by our directors of Common Stock (see "Ownership of Common Stock—Common Stock Ownership by Directors and Executive Officers") and transactions between the Company, on the one hand, and our directors and their affiliates, on the other hand (see "Certain Relationships and Related Party Transactions"). Based on such review, the board of directors has determined that we have six "independent directors" as defined in the Nasdaq listing standards and applicable SEC rules, Messrs. Chadha, Lipman, Coburn, Rexford, Nord and Black; independent directors, therefore, constitute a majority of our board of directors. Non-management directors meet periodically in executive session without members of the Company's management at the conclusion of regularly scheduled board meetings. In addition, Messrs. Lipman, Coburn and Rexford qualify as independent directors for the purpose of serving on the audit committee of the Company under SEC rules.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

From and after July 12, 2017, the closing of the Business Combination, KPMG LLP and its affiliates (collectively, "KPMG") provided services consisting of the audit of the annual consolidated financial statements and internal controls over financial reporting of the Company, review of the quarterly financial statements of the Company, accounting consultations and consents and other services related to SEC filings by the Company and its subsidiaries and other pertinent matters and other permitted services to the Company. From January 1, 2016 to July 12, 2017, KPMG provided accounting services to SourceHOV, our accounting acquirer.

***Audit Fees***

The aggregate fees billed or expected to be billed by KPMG for professional services rendered for the audit of the Company's annual consolidated financial statements and internal controls over financial reporting for the fiscal years ended 2016 and 2017, for the reviews of the condensed consolidated financial statements included in the Company's Quarterly Reports on Form 10-Q for the 2016 and 2017 fiscal years and for accounting research and consultation related to the audits and reviews totaled approximately $2.4 million for 2016 and $3.3 million for 2017. These fees were approved by the Audit Committee.

***Audit-Related Fees***

The aggregate fees billed by KPMG for audit-related services for the fiscal years ended 2016 and 2017 were $0.3 million and $1.1 million, respectively. These fees related to research and consultation on various filings with the SEC and due diligence services and were approved by the Audit Committee.

***All Other Fees***

There were no fees billed by KPMG for services rendered to the Company other than the services described above under "Audit Fees," "and Audit-Related Fees" for the fiscal years ended 2016 and 2017.

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**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**(a) (1) Financial Statements**



**(2) Financial Statement Schedules**

Schedule II—Valuation and Qualifying Accounts

All other schedules for which provision is made in Regulation S-X either (i) are not required under the related instructions or are inapplicable and, therefore, have been omitted, or (ii) the information required is included in the consolidated financial statements or the notes thereto that are a part hereof.

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**(a)(3) Exhibits**

| Exhibit No. | Description | Filed or Furnished Herewith |
|---|---|---|
| 2.1 | Business Combination Agreement, dated as of February 21, 2017, by and among Quinpario Acquisition Corp. 2, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., Novitex Holdings, Inc., SourceHOV Holdings, Inc., Novitex Parent, L.P, HOVS LLC and HandsOn Fund 4 I, LLC (3) | |
| 3.1 | Restated Certificate of Incorporation, dated July 12, 2017(5) | |
| 3.2 | Amended and Restated Bylaws, dated July 12, 2017(5) | |
| 3.3 | Certificate of Designations, Preferences, Rights and Limitations of Series A Perpetual Convertible Preferred Stock(5) | |
| 3.4 | Waiver of Bylaws(6) | |
| 4.1 | Specimen Common Stock Certificate(1) | |
| 4.2 | Specimen Warrant Certificate(1) | |
| 4.3 | Form of Warrant Agreement between Continental Stock Transfer & Trust Company and the Registrant(1) | |
| 4.4 | Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc. as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee(5) | |
| 4.5 | First Supplemental Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc., as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee(5) | |
| 10.1 | Modification Agreement, dated as of June 15, 2017(4) | |
| 10.2 | Amended & Restated Registration Rights Agreement, dated July 12, 2017, by and among the Company and the Holders(5) | |
| 10.3 | First Lien Credit Agreement, dated July 12, 2017, by and among Exela Intermediate Holdings LLC, Exela Intermediate LLC, the Lenders Party Thereto, Royal Bank of Canada, RBC Capital Markets, Credit Suisse Securities (USA) LLC, Natixis, New York Branch and KKR Capital Markets LLC(5) | |
| 10.4 | Director Nomination Agreement, dated July 12, 2017, by and between the Company and Apollo Novitex Holdings, L.P.(5) | |
| 10.5 | Exela Technologies, Inc. Director Nomination Agreement, dated July 12, 2017, by and among the Company, the HGM Group and Ex-Sigma 2 LLC(5) | |
| 10.6 | Employment Agreement dated as of May 27, 2007, between BancTec, Inc. and Mark D. Fairchild as amended October , 2007, May 26, 2008, June 1, 2009, March 9, 2011 and November 30, 2012. | |
| 10.7 | Letter Agreement between SourceHOV and its affiliates and Ron Cogburn | |
| 10.8 | Letter Agreement between SourceHOV and its affiliates and Suresh Yannamani | |
| 10.9 | Letter Agreement between SourceHOV and its affiliates and Mark Fairchild | |

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| Exhibit No. | Description | Filed or Furnished Herewith |
|---|---|---|
| 21.1 | Subsidiaries of Exela Technologies Inc. | |
| 23.1 | Consent of KPMG LLP(2) | |
| 31.1 | Certification of the Principal Executive Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 | Furnished |
| 31.2 | Certification of the Principal Financial and Accounting Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 | Furnished |
| 32.1 | Certification of the Principal Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 | Furnished |
| 32.2 | Certification of the Principal Financial and Accounting Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 | Furnished |
| 101.INS | XBRL Instance Document | Filed |
| 101.SCH | XBRL Taxonomy Extension Schema | Filed |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | Filed |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase | Filed |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase | Filed |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | Filed |

(1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-198988).

(2) Incorporated by reference to the Registrant's Amendment No. 2 to Registration Statement on Form S-3, filed on September 21, 2017.

(3) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on February 22, 2017.

(4) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on June 21, 2017.

(5) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 18, 2017.

(6) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on December 21, 2017.

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**Schedule II**

**Valuation and Qualifying Accounts**
**For the years ended December 31, 2017, 2016, and 2015**
**(Dollars in Thousands)**

| | Balance at Beginning of Year | Additions: Charges to Costs and Expenses | Additions: Other Comprehensive Income (Loss) | Goodwill | Deductions from Reserves | Balance at End of Year |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Allowance for doubtful accounts receivable | $ 3,219 | $ 15 | $ — | $ — | $ 491 | $ 3,725 |
| Valuation allowances for deferred tax assets | (170,821) | (9,747) | — | (730) | 72,676 | (108,622) |
| **2016** | | | | | | |
| Allowance for doubtful accounts receivable | $ 3,164 | $ 188 | $ — | $ — | $ (132) | $ 3,219 |
| Valuation allowances for deferred tax assets | (147,758) | (8,517) | — | (16,880) | 2,334 | (170,821) |
| **2015** | | | | | | |
| Allowance for doubtful accounts receivable | $ 2,199 | $ 196 | $ — | $ — | $ 769 | $ 3,164 |
| Valuation allowances for deferred tax assets | (149,376) | (4,143) | — | — | 5,761 | (147,758) |

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | |
|---|---|
| Dated:<br>March 16, 2018 | By: /s/ RONALD COGBURN<br>Ronald Cogburn, *Chief Executive Officer* |

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| | |
|---|---|
| Dated:<br>March 16, 2018 | By: /s/ RONALD COGBURN<br>Ronald Cogburn, *Chief Executive Officer (Principal Executive Officer) and Director* |
| Dated:<br>March 16, 2018 | By: /s/ JIM REYNOLDS<br>Jim Reynolds, *Executive Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) and Director* |
| Dated:<br>March 16, 2018 | By: /s/ PAR CHADHA<br>Par Chadha, *Chairman of the Board of Directors* |
| Dated:<br>March 16, 2018 | By: /s/ MATTHEW H. NORD<br>Matthew H. Nord, *Director* |
| Dated:<br>March 16, 2018 | By: /s/ JOSHUA M. BLACK<br>Joshua M. Black, *Director* |
| Dated:<br>March 16, 2018 | By: /s/ NATHANIEL J. LIPMAN<br>Nathaniel J. Lipman, *Director* |
| Dated:<br>March 16, 2018 | By: /s/ GORDON J. COBURN<br>Gordon J. Coburn, *Director* |
| Dated:<br>March 16, 2018 | By: /s/ JOHN H. REXFORD<br>John H. Rexford, *Director* |

# Exhibit 2

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2018**

**Or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to .**

**Commission file number: 001-36788**

# EXELA TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Delaware**<br>(State of or other Jurisdiction Incorporation or Organization) | **47-1347291**<br>(I.R.S. Employer Identification No.) |
| **2701 E. Grauwyler Rd.**<br>**Irving, TX**<br>(Address of Principal Executive Offices) | **75061**<br>(Zip Code) |

Registrant's Telephone Number, Including Area Code: **(844) 935-2832**

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, Par Value $0.0001 per share | The Nasdaq Stock Market LLC |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐ Smaller Reporting Company ☐ Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 7, 2018, the registrant had 152,379,013 shares of Common Stock outstanding.

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**Exela Technologies, Inc.**
**Form 10-Q**
**For the quarterly period ended March 31, 2018**
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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Balance Sheets**
**As of March 31, 2018 and December 31, 2017**
*(in thousands of United States dollars except share and per share amounts)*

| | March 31, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 26,882 | $ 39,000 |
| Restricted cash | 12,549 | 42,489 |
| Accounts receivable, net of allowance for doubtful accounts of $4,077 and $3,725, respectively | 238,680 | 229,704 |
| Inventories, net | 13,519 | 11,922 |
| Prepaid expenses and other current assets | 27,520 | 24,596 |
| **Total current assets** | **319,150** | **347,711** |
| Property, plant and equipment, net | 132,870 | 132,908 |
| Goodwill | 747,325 | 747,325 |
| Intangible assets, net | 438,929 | 464,984 |
| Deferred income tax assets | 9,171 | 9,019 |
| Other noncurrent assets | 18,490 | 12,891 |
| Total assets | **$ 1,665,935** | **$ 1,714,838** |
| **Liabilities and Stockholders' Deficit** | | |
| **Liabilities** | | |
| Current Liabilities | | |
| Accounts payable | $ 77,194 | $ 81,263 |
| Related party payables | 14,172 | 14,445 |
| Income tax payable | 6,967 | 3,612 |
| Accrued liabilities | 31,805 | 49,383 |
| Accrued compensation and benefits | 49,738 | 46,925 |
| Accrued Interest | 23,795 | 55,102 |
| Customer deposits | 36,542 | 31,656 |
| Deferred revenue | 15,933 | 12,709 |
| Obligation for claim payment | 56,554 | 42,489 |
| Current portion of capital lease obligations | 14,785 | 15,611 |
| Current portion of long-term debt | 21,170 | 20,565 |
| **Total current liabilities** | **348,655** | **373,760** |
| Long-term debt, net of current maturities | 1,277,029 | 1,276,094 |
| Capital lease obligations, net of current maturities | 26,474 | 25,958 |
| Pension liability | 26,081 | 25,496 |
| Deferred income tax liabilities | 5,478 | 5,362 |
| Long-term income tax liability | 3,470 | 3,470 |
| Other long-term liabilities | 13,879 | 14,704 |
| **Total liabilities** | **1,701,066** | **1,724,844** |
| Commitments and Contingencies (Note 9) | | |
| **Stockholders' deficit** | | |
| Common stock, par value of $0.0001 per share; 1,600,000,000 shares authorized; 152,565,218 shares issued and 152,515,918 outstanding at March 31, 2018 and 150,578,451 shares issued and 150,529,151 outstanding at December 31, 2017 | 15 | 15 |
| Preferred stock, par value of $0.0001 per shares; 20,000,000 shares authorized; 4,569,233 shares issued and outstanding at March 31, 2018 and 6,194,233 shares issued and outstanding at December 31, 2017 | 1 | 1 |
| Additional paid in capital | 482,018 | 482,018 |
| Less:common stock held in treasury, at cost; 49,300 shares at March 31, 2018 and 49,300 shares at December 31, 2017 | (249) | (249) |
| Equity based compensation | 35,044 | 34,085 |
| Accumulated deficit | (540,041) | (514,628) |
| **Accumulated other comprehensive loss:** | | |
| Foreign currency translation adjustment | (462) | (194) |
| Unrealized pension actuarial losses, net of tax | (11,457) | (11,054) |
| Total accumulated other comprehensive loss | (11,919) | (11,248) |
| **Total stockholders' deficit** | **(35,131)** | **(10,006)** |
| **Total liabilities and stockholders' deficit** | **$ 1,665,935** | **$ 1,714,838** |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Operations**
**For the Three Months ended March 31, 2018 and 2017**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Three Months ended March 31, 2018 | Three Months ended March 31, 2017 |
|---|---|---|
| Revenue | $ 393,167 | $ 218,260 |
| Cost of revenue (exclusive of depreciation and amortization) | 293,792 | 143,708 |
| Selling, general and administrative expenses | 45,595 | 35,581 |
| Depreciation and amortization | 38,019 | 21,320 |
| Related party expense | 1,105 | 2,385 |
| **Operating income (loss)** | **14,656** | **15,266** |
| **Other expense (income), net:** | | |
| Interest expense, net | 38,017 | 26,219 |
| Sundry expense (income), net | (64) | 2,724 |
| Other income, net | (3,328) | — |
| **Net loss before income taxes** | (19,969) | (13,677) |
| Income tax (expense) benefit | (4,025) | (2,004) |
| **Net loss** | **(23,994)** | **(15,681)** |
| Cumulative dividends for Series A Preferred Stock | (914) | — |
| **Net loss attributable to common stockholders** | **$ (24,908)** | **$ (15,681)** |
| Net loss per share - basic and diluted | (1.64) | (2.45) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Comprehensive Loss**
**For the Three Months ended March 31, 2018 and 2017**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Three Months ended March 31, | |
|---|---|---|
| | **2018** | **2017** |
| Net loss | $ (23,994) | $ (15,681) |
| **Other comprehensive income (loss), net of tax:** | | |
| Foreign currency translation adjustments | (268) | 2,414 |
| Unrealized pension actuarial gains (losses), net of tax | (403) | (281) |
| Comprehensive loss | $ (24,665) | $ (13,548) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Stockholders' Equity (Deficit)**
**For the Three Months ended March 31, 2018 and 2017**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Common Stock | | Preferred Stock | | Treasury Stock | | | | Accumulated Other Comprehensive Income (Loss) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Equity-based Compensation Agreement | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | Accumulated Deficit | Total Stockholder's Deficit |
| Balances at December 31, 2016 (as previously reported) | $ 144,400 | $ — | $ — | $ — | $ — | $ — | $ (57,389) | $ 27,342 | $ (3,547) | $ (12,339) | $ (293,968) | $ (339,901) |
| Conversion of shares | 63,880,157 | — | — | — | — | — | — | — | — | — | — | |
| Balances at December 31, 2016, effect of reverse acquisition (refer to Note 3) | $64,024,557 | $ — | $ — | $ — | $ — | $ — | $ (57,389) | $ 27,342 | $ (3,547) | $ (12,339) | $ (293,968) | $ (339,901) |
| Net loss January 1 to March 31, 2017 | | | | | | | | | | | (15,681) | (15,681) |
| Equity-based compensation | | | | | | | | 310 | | | | 310 |
| Foreign currency translation adjustment | | | | | | | | | 2,414 | | | 2,414 |
| Contribution from Shareholders | | | | | | | 20,538 | | | | | 20,538 |
| Net realized pension actuarial gains, net of tax | | | | | | | | | | (281) | | (281) |
| Balances at March 31, 2017 | $64,024,557 | $ — | $ — | $ — | $ — | $ — | $ (36,851) | $ 27,652 | $ (1,133) | $ (12,620) | $ (309,649) | $ (332,601) |

| | Common Stock | | Preferred Stock | | Treasury Stock | | | | Accumulated Other Comprehensive Income (Loss) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Equity-based Compensation Agreement | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | Accumulated Deficit | Total Stockholder's Deficit |
| Balances at December 31, 2017 | 150,529,151 | $ 15 | 6,194,233 | $ 1 | 49,300 | $ (249) | $ 482,018 | $ 34,085 | $ (194) | $ (11,054) | $ (514,628) | $ (10,006) |
| Implementation of ASU 2014-09 (Note 2) | | | | | | | | | | | (1,419) | (1,419) |
| Net loss January 1 to March 31, 2018 | | | | | | | | | | | (23,994) | (23,994) |
| Equity-based compensation | | | | | | | | 959 | | | | 959 |
| Foreign currency translation adjustment | | | | | | | | | (268) | | | (268) |
| Net realized pension actuarial gains, net of tax | | | | | | | | | | (403) | | (403) |
| Preferred shares converted to common | 1,986,767 | | (1,625,000) | | | | | | | | | — |
| Balances at March 31, 2018 | 152,515,918 | $ 15 | 4,569,233 | $ 1 | 49,300 | $ (249) | $ 482,018 | $ 35,044 | $ (462) | $ (11,457) | $ (540,041) | $ (35,131) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Notes to the Condensed Consolidated Financial Statements**
*(in thousands of United States dollars except share and per share amounts)*
*(Unaudited)*

| | Three Months ended March 31, 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss | $ (23,994) | $ (15,681) |
| Adjustments to reconcile net loss | | |
| Depreciation and amortization | 38,019 | 21,320 |
| Debt discount and debt issuance cost amortization | 2,595 | 3,474 |
| Provision (recovery) for doubtful accounts | 481 | 79 |
| Deferred income tax benefit | 835 | 627 |
| Share-based compensation expense | 959 | 310 |
| Foreign currency remeasurement | (323) | 687 |
| Gain on sale of Meridian | — | (251) |
| Loss on sale of property, plant and equipment | 253 | 272 |
| Fair value adjustment for interest rate swap | (3,328) | — |
| Change in operating assets and liabilities, net of effect from acquisitions | | |
| Accounts receivable | (10,876) | (1,086) |
| Prepaid expenses and other assets | (5,567) | (3,720) |
| Accounts payable and accrued liabilities | (18,864) | 1,928**(1)** |
| Related party payables | (273) | (3,690) |
| **Net cash provided by (used in) operating activities** | (20,083) | 4,269**(1)** |
| **Cash flows from investing activities** | | |
| Purchases of property, plant and equipment | (5,957) | (2,045) |
| Additions to internally developed software | (1,092) | (2,528) |
| Additions to outsourcing contract costs | (1,596) | (3,989) |
| Proceeds from sale of Meridian | — | 4,381 |
| Proceeds from sale of property, plant, and equipment | 2 | — |
| **Net cash used in investing activities** | (8,643) | (4,181) |
| **Cash flows from financing activities** | | |
| Change in bank overdraft | — | (210) |
| Proceeds from financing obligations | 1,863 | 3,008 |
| Contribution from shareholders | — | 20,538 |
| Cash paid for equity issue costs | (7,500) | — |
| Borrowings from revolver and swing-line loan | 25,000 | 38,500 |
| Repayments from revolver and swing line loan | (25,000) | (38,500) |
| Principal payments on long-term obligations | (7,750) | (15,786) |
| **Net cash provided by (used in) financing activities** | (13,387) | 7,550 |
| Effect of exchange rates on cash | 55 | (44) |
| **Net increase (decrease) in cash and cash equivalents** | (42,058) | 7,594**(1)** |
| Cash, restricted cash, and cash equivalents | | |
| Beginning of period | 81,489 | 34,253**(1)** |
| End of period | $ 39,431 | $ 41,847**(1)** |
| **Supplemental cash flow data:** | | |
| Income tax payments, net of refunds received | $ 1,053 | $ (12) |
| Interest paid | 66,192 | 30,844 |
| **Noncash investing and financing activities:** | | |
| Assets acquired through capital lease arrangements | 4,432 | 68 |
| Accrued capital expenditures | 1,101 | 98 |

**(1)** Balances for these items differ from previously reported balances due to the adoption of ASU no. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Topic 230),* see Note 2.

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**Exela Technologies, Inc. and Subsidiaries**
**Notes to the Condensed Consolidated Financial Statements**
*(in thousands of United States dollars except share and per share amounts)*
*(Unaudited)*

**1. General**

These condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements as of and for the year ended December 31, 2017 included in the Exela Technologies, Inc. (the "Company," "Exela," "we," "our" or "us") annual report on Form 10-K for such period.

The accompanying condensed consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America ("GAAP") and with the instructions to Form 10-Q and Rule 10-01 of Securities and Exchange Commission ("SEC") Regulation S-X as they apply to interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. These accounting principles require us to use estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from our estimates.

The condensed consolidated financial statements are unaudited, but in our opinion include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim period. The interim financial results are not necessarily indicative of results that may be expected for any other interim period or the fiscal year.

**Net Loss per Share**

Earnings per share ("EPS") is computed by dividing net loss available to holders of the Company's Common Stock by the weighted average number of shares of Common Stock outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock, using the more dilutive of the two-class method or if-converted method in periods of earnings. The two-class method is an earnings allocation method that determines earnings per share for Common Stock and participating securities. As the Company experienced net losses for the periods presented, the impact of participating Series A Preferred Stock was calculated based on the if-converted method. Diluted EPS excludes all dilutive potential of shares of Common Stock if their effect is anti-dilutive.

For the quarter ended March 31, 2018, shares of the Company's Series A Convertible Preferred Stock ("Series A Preferred Stock"), if converted would have resulted in an additional 5,586,344 shares of Common Stock outstanding, but were not included in the computation of diluted loss per share as their effects were anti-dilutive.

The Company has not included the effect of 35,000,000 warrants sold in the Quinpario Initial Public Offering ("IPO") in the calculation of net income (loss) per share. Warrants are considered anti-dilutive and excluded when the exercise price exceeds the average market value of the Company's Common Stock price during the applicable period.

| | Three Months ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net loss attributable to common stock holders (A) | $ (24,908) | $ (15,681) |
| Weighted average common shares outstanding - basic and diluted (B) | 152,140,117 | 64,024,557 |
| **Loss Per Share:** | | |
| Basic and diluted (A/B) | $ (1.64) | $ (2.45) |

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**2. Recently Adopted Accounting Pronouncements**

Effective January 1, 2018 the Company adopted Accounting Standards Update ("ASU") no. 2014-09, *Revenue from Contracts with Customers (ASC 606)*. Under the update, revenue is recognized based on a five-step model. The core principle of the model is that revenue will be recognized when the transfer of promised goods or services to customers is made in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Subsequent updates have been issued primarily to provide implementation guidance related to the initial guidance issued in May 2014. The Company has adopted this standard using the modified retrospective approach applied to those contracts that were not completed as of January 1, 2018. The results for the reporting period beginning after January 1, 2018, are presented in accordance with the new standard, although historical information has not been restated and continues to be reported under the accounting standards and policies in effect for those periods. The adoption of ASC 606 did not have a material impact on the Company's financial position, results of operations and cash flows as of or for the period ended March 31, 2018, and we expect the impact of the adoption of the new standard will be immaterial to our results of operations on an ongoing basis. The cumulative effect of accounting change recognized was $1.4 million recorded as an increase to beginning balance of accumulated deficit, and a corresponding reduction to Accounts receivable, net. See Note 3 for additional disclosure.

Effective January 1, 2018, the Company adopted ASU no. 2016-15, *(Topic 230): Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments,* which adds or clarifies guidance on the presentation and classification of eight specific types of cash receipts and cash payments in the statement of cash flows such as debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees, with the intent of reducing diversity in practice. We applied the guidance retrospectively to all periods presented. Exela will reclassify a loss on extinguishment of debt from operating activities to financing activities in the third quarter of 2017 in the to be filed quarterly and annual statements ended September 30, 2018 and December 31, 2018, respectively. The adoption had no impact on the Company's financial position, results of operations and cash flows for the quarter ended March 31, 2018.

Effective January 1, 2018, the Company adopted ASU no. 2016-16, *Income Taxes Topic (740): Intra-Entity Transfers of Assets Other Than Inventory*, which eliminates the current prohibition on immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory, with the intent of reducing complexity and diversity in practice. Under ASU 2016-16, entities must recognize the income tax consequences when the transfer occurs rather than deferring recognition. Entities must apply the guidance on a modified retrospective basis though a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. The adoption had no material impact on the Company's financial position, results of operations and cash flows.

Effective January 1, 2018, the Company adopted ASU no. 2016-18, *(Topic 230): Restricted Cash*. *Statement of Cash Flows: Restricted Cash*. The ASU addresses diversity in practice that exists in the classification and presentation of changes in restricted cash and requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. We applied the guidance retrospectively to all periods presented. As a result of adopting the ASU no. 2016-18, restricted cash is included in the balances of restricted cash, cash and cash equivalents presented in the Statement of Cash Flows for the quarters ended March 31, 2018 and 2017. Adopting the standard increased the net change in cash and cash equivalents, which is reflected within operating cash flows, by less than $0.1 million for the period ended March 31, 2017. Total Cash and cash equivalents for the Beginning of period and End of period March 31, 2017 increased $25.9 million due to the inclusion of restricted cash.

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Effective January 1, 2018, the Company adopted ASU no. 2017-01, *(Topic 805): Business Combinations: Clarifying the Definition of a Business*. The ASU clarifies the definition of a business and provides guidance on evaluating as to whether transactions should be accounted for as acquisitions (or disposals) of assets or business combinations. The definition clarification as outlined in this ASU affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The adoption had no material impact on the Company's financial position, results of operations and cash flows.

Effective January 1, 2018, the Company adopted ASU no. 2017-07, *(Topic 715): Compensation Retirement Benefit; Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments to this ASU require the service cost component of net periodic benefit cost be reported in the same income statement line or lines as other compensation costs for employees. The other components of net periodic benefit cost are required to be reported separately from service costs and outside a subtotal of income from operations. The new standard requires retrospective application and allows a practical expedient that permits an employer to use the amounts disclosed in its pension plan footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation. Adoption of the standard resulted in only the service cost being recorded to Cost of revenue; see Note 8 for the related impact.

Effective January 1, 2018 the company adopted ASU no. 2017-09, *(Topic 718): Compensation — Stock Compensation: Scope of Modification Accounting*. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this update will be applied on a prospective basis to an award modified on or after the adoption date. The adoption had no impact on the Company's financial position, results of operations and cash flows.

**Recently Issued Accounting Pronouncements**

In February 2016, the FASB issued ASU no. 2016-02, *Leases (842)*. This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Since the issuance of the original standard, the FASB has issued a subsequent update that provides a practical expedient for land easements (ASU 2018-01). The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years and early application is permitted. The Company is currently evaluating the impact that adopting this standard will have on the consolidated financial statements.

In June 2016, the FASB issued ASU no. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* to replace the incurred loss impairment methodology under current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The standard will be effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260)*, *Distinguishing Liabilities from Equity* (Topic 480) *and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily*

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*Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815); Targeted Improvements to Accounting for Hedging Activities*. The amendments in this ASU better align the risk management activities and financial reporting for these hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

**3**. **Significant Accounting Policies**

The information presented below supplements the Significant Accounting Policies information presented in our 2017 Form 10-K, including Revenue Recognition for the adoption of ASC 606, which became effective January 1, 2018. See our 2017 Form 10-K for a description of our significant accounting policies in effect prior to the adoption of the new accounting standard.

**Revenue Recognition**

We account for revenue in accordance with ASC 606. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. All of our material sources of revenue are derived from contracts with customers, primarily relating to the provision of business and transaction processing services within each of our segments. We do not have any significant payment terms, as payment is received shortly after goods are delivered or services are provided.

***Nature of Services***

Our primary performance obligations are to stand ready to provide various forms of transaction processing services, consisting of a series of distinct services that are substantially the same and have the same pattern of transfer over time, and accordingly are combined into a single performance obligation. Our promise to our customers is typically to perform an unknown or unspecified quantity of tasks and the consideration received is contingent upon the customers' use (i.e., number of transactions processed, requests fulfilled, etc.); as such, the total transaction price is variable. We allocate the variable fees to the single performance obligation charged to the distinct service period in which we have the contractual right to bill under the contract.

*(in thousands of United States dollars except share and per share amounts)*

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***Disaggregation of Revenues***

The following table disaggregates revenue from contracts by geographic region and by segment for the three months ended March 31, 2018, and 2017:

| | Three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | ITPS | HS | LLPS | ITPS | HS | LLPS |
| United States | $ 269,939 | $ 58,632 | $ 22,598 | $ 106,347 | $ 59,078 | $ 23,385 |
| Europe | 35,283 | — | — | 28,300 | — | — |
| Other | 6,715 | — | — | 1,150 | — | — |
| Total | $ 311,937 | $ 58,632 | $ 22,598 | $ 135,797 | $ 59,078 | $ 23,385 |

***Contract Balances***

The following table presents contract assets and contract liabilities recognized at March 31, 2018 and December 31, 2017:

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Accounts Receivable, net | $ 238,680 | $ 229,704 |
| Deferred revenues | 16,793 | 13,717 |
| Costs to obtain and fulfill a contract | 20,814 | 22,929 |
| Customer deposits | 36,542 | 31,656 |

Accounts receivable includes $34.3 million and $27.9 million as of March 31, 2018 and December 31, 2017, respectively, representing amounts not billed to customers. We have accrued the unbilled receivables for work performed in accordance with the terms of contracts with customers.

Deferred revenues relate to payments received in advance of performance under a contract. A significant portion of this balance relates to service contracts where we received payments for upfront conversions/implementation type activities of which do not transfer a service to the customer but rather are used in fulfilling the related performance obligations that transfer over time. The advance consideration received from customers is deferred over the contract term. We recognized revenue of $7.1 million during the three months ended March 31, 2018 that had been deferred as of December 31, 2017.

Costs incurred to obtain and fulfill contract are deferred and expensed on a straight-line basis over the estimated benefit period, which is generally the contract term. We recognized $2.4 million of amortization for these costs in the first quarter of 2018 within depreciation and amortization expense. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or transition activities and can be separated into two principal categories: contract commissions and transition/set-up costs. Examples of such capitalized costs include hourly labor and related fringe benefits and travel costs. Applying the practical expedient in ASC 340-40-25-4, we recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period would have been one year or less. These costs are included in Selling, general and administrative expenses. The effect of applying this practical expedient was not material.

Customer deposits consist primarily of amounts received from customers in advance for postage. The majority of the amounts recorded as of December 31, 2017 were used to pay for postage with the corresponding postage revenue being recognized during the quarter ended March 31, 2018.

*(in thousands of United States dollars except share and per share amounts)*

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***Performance Obligations***

At the inception of each contract, we assess the goods and services promised in our contracts and identify each distinct performance obligation. The majority of our contracts have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts. For the majority of our business and transaction processing service contracts, revenues are recognized as services are provided based on an appropriate input or output method, typically based on the related labor or transactional volumes. Some of our contracts have multiple performance obligations, including contracts that combine software implementation services with post-implementation customer support. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we estimate our expected costs of satisfying a performance obligation and add an appropriate margin for that distinct good or service. We also use the adjusted market approach whereby we estimate the price that customers in the market would be willing to pay. In assessing whether to allocate variable consideration to a specific part of the contract, we consider the nature of the variable payment and whether it relates specifically to its efforts to satisfy a specific part of the contract. Certain of our software implementation performance obligations are satisfied at a point in time, typically when customer acceptance is obtained. When evaluating the transaction price, we analyze, on a contract by contract basis, all applicable variable consideration. The nature of our contracts give rise to variable consideration, including volume discounts, contract penalties, and other similar items that generally decrease the transaction price. We estimate these amounts based on the expected amount to be provided to customers and reduce revenues recognized. We do not anticipate significant changes to our estimates of variable consideration.

We include reimbursements from customers, such as postage costs, in revenue, while the related costs are included in cost of revenue.

***Transaction Price Allocated to the Remaining Performance Obligations***

In accordance with optional exemptions available under ASC 606, we did not disclose the value of unsatisfied performance obligations for (1) contracts with an original expected length of one year or less, and (2) contracts for which variable consideration relates entirely to an unsatisfied performance obligation, which comprise the majority of our contracts. We have certain contracts where we receive a fixed monthly fee in exchange for a series of distinct services that are substantially the same and have the same pattern of transfer over time. These contracts comprise substantially all of the amounts for which we expect to recognize revenue related to fixed consideration associated with remaining performance obligations in each of the future periods noted:

| | Estimated Remaining Fixed Consideration for Unsatisfied Performance Obligations | |
|---|---|---|
| 2018 | | 213,796,515 |
| 2019 | | 250,487,172 |
| 2020 | | 119,914,305 |
| 2021 | | 59,989,281 |
| 2022 | | 34,163,699 |
| 2023 and thereafter | | 11,548,764 |
| Total | $ | 689,899,736 |

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**4. Business Combination**

On July 12, 2017, the Company consummated its business combination with SourceHOV and Novitex (the "Business Combination") pursuant to the Business Combination Agreement and Consent, Waiver and Amendment to the Business Combination Agreement, dated February 21, 2017 and June 15, 2017. In connection with the Business Combination, the Company acquired debt facilities and issued notes totaling $1.4 billion (refer to Note 5 — Long Term Debt and Credit Facilities). Proceeds from the acquired debt were used to refinance the existing debt of SourceHOV, settle the outstanding debt of Novitex, and pay fees and expenses incurred in connection with the Business Combination. Immediately following the Business Combination, there were 146,910,648 shares of common stock, 9,194,233 shares of Series A Preferred Stock, and 35,000,000 warrants outstanding.

Under ASC 805, *Business Combinations*, SourceHOV was deemed the accounting acquirer based on the following predominate factors: it has the largest portion of voting rights in the Company, the Board and Management has more individuals coming from SourceHOV than either Quinpario or Novitex, SourceHOV was the largest entity by revenue and by assets, and the headquarters was moved to the SourceHOV headquarters location.

The Company acquired 100% of the equity of Novitex pursuant to the Business Combination Agreement by issuing 30,600,000 shares of common stock of Exela to Novitex Parent, L.P., the sole stockholder of Novitex Holdings, Inc. Total value of equity for the transaction was $244.8 million. Additionally, as noted, the Company used proceeds from acquired debt to settle the outstanding debt of Novitex in the amount of $420.5 million, and pay transaction related costs and interest on behalf of Novitex in the amount of $10.3 million and $1.0 million, respectively, which was accounted for as part of consideration.

The acquired assets and assumed liabilities of Novitex were recorded at their estimated fair values. The purchase price allocation for the Novitex business combination is preliminary and subject to change within the respective measurement period which will not extend beyond one year from the acquisition date. Measurement period adjustments will be recognized in the reporting period in which the adjustment amounts are determined.

The following table summarizes the consideration paid for Novitex and the preliminary fair value of the assets acquired and liabilities assumed at the acquisition date on July 12, 2017:

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**Exela Technologies, Inc. and Subsidiaries**
**Notes to the Condensed Consolidated Financial Statements**
*(in thousands of United States dollars except share and per share amounts)*
*(Unaudited)*

| | |
|---|---|
| Cash and equivalents | 8,428 |
| Accounts receivable | 87,474 |
| Inventory | 1,245 |
| Prepaid expenses & other | 13,974 |
| Property and equipment, net | 60,657 |
| Identifiable intangible Assets, net | 251,060 |
| Deferred charges and other assets | 2,723 |
| Other noncurrent assets | 93 |
| Goodwill, excess/deficient purchase price | 406,060 |
| **Total assets** | **831,714** |
| **Total assets less goodwill** | **425,654** |
| **Liabilities and Equity** | |
| Accounts payable | 29,444 |
| Short-term borrowings and current portion of LT debt | 11,335 |
| Accrued liabilities | 30,432 |
| Advanced billings and customer deposits | 18,926 |
| Long term debt | 15,704 |
| Deferred taxes | 46,991 |
| Other liabilities | 2,226 |
| Equity | 676,656 |
| **Total liabilities and equity** | **831,714** |
| **Total liabilities less equity/purchase price** | **155,058** |

The identifiable intangible assets include customer relationships, non-compete agreements, internally developed software, and trademarks and trade names. Customer relationships and non-compete agreements were valued using the Income Approach, specifically the Multi-Period Excess Earnings method. Trademarks and trade names were valued using the Income Approach, specifically the Relief-from-Royalty method. Internally developed software was valued based on costs incurred related to Connect Platform. All of these intangibles acquired represent a Level 3 measurement as they are based on unobservable inputs reflecting Management's own assumptions about the inputs used in pricing the asset or liability at fair value.

| | Fair Value | Weighted Average Useful Life (in Years) |
|---|---|---|
| Trademark and trade name - Novitex | $ 18,000 | 9.5 |
| Customer relationships | 230,000 | 16.0 |
| Internally devleoped software - Connect Platform | 1,710 | 5.0 |
| Non-compete agreements | 1,350 | 1.0 |
| Total identifiable intangibles, net | $ 251,060 | |

As of the date of the Business Combination, the weighted-average useful life of total identifiable intangible assets acquired in the Business Combination, excluding goodwill, is 15.4 years.

Through the acquisition of SourceHOV and Novitex, we expect to realize revenue synergies, leverage brand awareness, strengthen margins, generate greater free cash flow, expand the existing Novitex sales channels, and increase utilization of the existing workforce. The Company also anticipates opportunities for growth through the ability to leverage additional future services and capabilities. These factors, among others, contributed to a purchase price in excess of the estimated fair value of Novitex's identifiable net assets assumed, and as a result, the Company has recorded goodwill in connection with this acquisition.

*(in thousands of United States dollars except share and per share amounts)*

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The Company engaged a third party valuation firm to aid Management in its analyses of the fair value of the assets and liabilities. All estimates, key assumptions, and forecasts were either provided by or reviewed by the Company. Approximately $14.0 million of the goodwill recorded was tax deductible, which was carried over from the tax basis of the seller. Since the acquisition date of July 12, 2017, $134.4 million of revenue and $5.0 million of net loss are included in our consolidated revenues and net loss, respectively, for Novitex for the year ended December 31, 2017. These results are included in the ITPS segment.

*Transaction Costs*

The Company incurred approximately $60.0 million in advisory, legal, accounting and management fees in conjunction with the Business Combination as of December 31, 2017, excluding contract cancellation and advising fees to HGM of $23.0 million. Additionally, $7.6 million was incurred related to equity issuance costs and $40.9 million was incurred in debt issuance costs. No transaction costs were incurred in the three months ended March 31, 2018 and 2017.

*Restructuring Charges*

In February 2017, Management performed a strategic review of human resources at Novitex for the purpose of assessing the business need for their employment and for the purpose of quantifying the synergies resulting from the acquisition. As a result, in June 2017, representatives of SourceHOV and HGM Group communicated the termination of certain executives and non-executive Novitex employees. There were no restructuring charges incurred in the three months ended March 31, 2018 and 2017.

The Company determined that costs associated with termination benefits should be accounted for separately from the acquisition, as a post combination expense of the combined entity because the expense was incurred for the benefit of the combined entity. As of July 12, 2017, the Company recorded severance expense in the amount of $4.6 million related to the impacted executives and $0.1 million related to other terminations in the statement of operations No severance expense was incurred or recognized for the three months ended March 31, 2018.

**5. Intangibles Assets and Goodwill**

**Intangibles**

Intangible assets are stated at cost or acquisition-date fair value less accumulated amortization and consists of the following:

| | March 31, 2018 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Intangible Assets, Net |
| Customer relationships | $ 504,643 | $ (149,576) | $ 355,067 |
| Developed technology | 89,077 | (81,543) | 7,534 |
| Trade names | 13,100 | (775) | 12,325 |
| Outsource contract costs | 40,996 | (20,182) | 20,814 |
| Internally developed software | 30,762 | (4,398) | 26,364 |
| Trademarks | 23,370 | (6,927) | 16,443 |
| Non compete agreements | 1,350 | (969) | 381 |
| Intangibles, net | $ 703,298 | $ (264,370) | $ 438,928 |

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**Exela Technologies, Inc. and Subsidiaries**
**Notes to the Condensed Consolidated Financial Statements**
*(in thousands of United States dollars except share and per share amounts)*
*(Unaudited)*

| | December 31, 2017 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Intangible Assets, Net |
| Customer relationships | $ 504,643 | $ (135,962) | $ 368,681 |
| Developed technology | 89,076 | (77,103) | 11,973 |
| Trade names (b) | 13,100 | — | 13,100 |
| Outsource contract costs | 40,456 | (17,526) | 22,930 |
| Internally developed software | 28,254 | (2,597) | 25,657 |
| Trademarks | 23,370 | (1,446) | 21,924 |
| Non compete agreements | 1,350 | (631) | 719 |
| Intangibles, net | $ 700,249 | $ (235,265) | $ 464,984 |

(a) Amounts include intangibles acquired in the 2017 Business Combination.
(b) The carrying amount of trade names for 2017 is net of accumulated impairment losses of $39.3 million.

**Goodwill**

Goodwill by reporting segment consists of the following:

| | Goodwill | Additions | Reductions | Currency translation adjustments | Goodwill (a) |
|---|---|---|---|---|---|
| ITPS | $ 159,394 | $ 406,522(b) | $ — | $ 299 | $ 566,215 |
| HC | 86,786 | — | — | — | 86,786 |
| LLPS | 127,111 | — | (32,787)(c) | — | 94,324 |
| Balance as of December 31, 2017 | $ 373,291 | $ 406,522 | $ (32,787) | $ 299 | $ 747,325 |
| ITPS | 566,215 | | | | 566,215 |
| HC | 86,786 | | | | 86,786 |
| LLPS | 94,324 | — | | — | 94,324 |
| Balance as of March 31, 2018 | $ 747,325 | $ — | $ — | $ — | $ 747,325 |

(a) The carrying amount of goodwill for all periods presented is net of accumulated impairment losses of $137.9 million.
(b) Addition to goodwill is due to the Novitex acquisition. Refer to Note 3.
(c) The reduction in goodwill is due to $30.1 million for impairment recorded in the fourth quarter of 2017 and $2.7 million for the sale of Meridian Consulting Group, LLC in the first quarter of 2017.

**6. Long-Term Debt and Credit Facilities**

**Senior Secured Notes**

On July 12, 2017, the Company issued $1.0 billion in aggregate principal amount of 10.0% First Priority Senior Secured Notes due 2023 with an OID of $22.5 million (the “Notes”). The Notes are guaranteed by certain subsidiaries of the Company. The Notes bear interest at a rate of 10.0% per year. The Company pays interest on the Notes on January 15 and July 15 of each year, commencing on January 15, 2018. The Notes will mature on July 15, 2023.

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**Debt Refinancing**

Upon the closing of the Business Combination on July 12, 2017, the $1,050.7 million outstanding balance of SourceHOV related debt facilities and the $420.5 million outstanding balance of Novitex debt facilities were paid off using proceeds from the Credit Agreement and issuance of the Notes. In accordance with ASC 470 — *Debt — Modifications and Extinguishments,* as a result of certain lenders that participated in SourceHOV's debt structure prior to the refinancing and the Company's debt structure after the refinancing, it was determined that a portion of the refinancing of SourceHOV's First lien secured term loan and Second lien secured term loan ("original term loans") would be accounted for as a debt modification, and the remaining would be accounted for as an extinguishment. The Company incurred $28.9 million in debt issuance costs related to the new secured term loan, of which $2.8 million was third party costs. The Company expensed $1.1 million of costs related to the modified debt and capitalized the remaining $27.8 million. The Company wrote off $30.5 million of the unamortized issuance costs and discounts associated with the retirement of SourceHOV's credit facilities. The Company has approximately $3.3 million and $3.5 million of remaining unamortized debt issuance costs and debt discounts, respectively, associated with the modified portion of the original term loans that will be amortized over the term of the new term loan, which are presented on the balance sheet as a contra-debt liability. The Company incurred a $5.0 million prepayment penalty related the Company's original term loans that was recorded as a loss on extinguishment of debt.

The proceeds of the new debt financing were also used to pay fees and expenses incurred in connection with the Business Combination and for general corporate purposes.

**Senior Credit Facilities**

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the "Credit Agreement") providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, a (i) $350.0 million senior secured term loan maturing July 12, 2023 with an original issue discount ("OID") of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022, none of which is currently drawn. As of March 31, 2018 and December 31, 2017, the Company had outstanding irrevocable letters of credit totaling approximately $20.6 million and $20.9 million, respectively, under the senior secured revolving facility.

The Credit Agreement provides for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company's option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity.

**Long-Term Debt Outstanding**

As of March 31, 2018 and December 31, 2017, the following long-term debt instruments were outstanding:

*(in thousands of United States dollars except share and per share amounts)*

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| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Other (a) | 18,815 | 17,534 |
| First lien credit agreement (b) | 308,104 | 308,825 |
| Senior secured notes (c) | 971,280 | 970,300 |
| Total debt | 1,298,199 | 1,296,659 |
| Less: Current portion of long-term debt | (21,170) | (20,565) |
| Long-term debt, net of current maturities | $ 1,277,029 | $ 1,276,094 |

(a) Other debt represents the Company's outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company.

(b) Net of unamortized original issue discount and debt issuance costs of $9.5 million and $28.0 million and $9.9 million and $29.1 million as of March 31, 2018 and December 31, 2017.

(c) Net of unamortized debt discount and debt issuance costs of $20.5 million and $8.2 million and $21.2 million and $8.5 million as of March 31, 2018 and December 31, 2017.

**7. Income Taxes**

The Company applies an estimated annual effective tax rate ("ETR") approach for calculating a tax provision for interim periods, as required under U.S. GAAP. The Company recorded an income tax expense of million $4.0 million and $2.0 million for the three months ended March 31, 2018 and 2017, respectively.

For the three months ended March 31, 2018, the Company's ETR of (20.2%) differed from the expected U.S. statutory tax rate of 21.0%, and was primarily impacted by permanent tax adjustments, state and local current expense, foreign operations, and valuation allowances, including valuation allowances on a portion of the Company's U.S. disallowed interest expense carryforwards created by the provisions of The Tax Cuts and Jobs Act ("TCJA").

For the three months ended March 31, 2017, the Company's ETR of (14.65%) differed from the expected U.S. statutory tax rate of 35.0%, and was primarily impacted by permanent tax adjustments, foreign operations, and a valuation allowance against certain domestic deferred tax assets that are not more-likely-than-not to be realized.

The TCJA subjects a US shareholder to tax on global intangible low-taxed income (GILTI) earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for GILTI, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. Given the complexity of the GILTI provisions, we are still evaluating the effects of the GILTI provisions and have not yet determined our accounting policy. At March 31, 2018, because we are still evaluating the GILTI provisions and our analysis of future taxable income that is subject to GILTI, we have included GILTI related to current-year operations only in our annual effective ETR and have not provided additional GILTI on deferred items.

As of March 31, 2018, there were no material changes to either the nature or the amounts of the uncertain tax positions previously determined for the year ended December 31, 2017.

**8. Employee Benefit Plans**

**German Pension Plan**

The Company's subsidiary in Germany provides pension benefits to retirees. Employees eligible for participation include all employees who started working for the Company prior to September 30, 1987 and have finished a qualifying period of at least 10 years. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a

*(in thousands of United States dollars except share and per share amounts)*

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December 31 measurement date for this plan. The German pension plan is an unfunded plan and therefore has no plan assets.

**U.K. Pension Plan**

The Company's subsidiary in the United Kingdom provides pension benefits to retirees and eligible dependents. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to October 2001. A retirement pension or a lump-sum payment may be paid dependent upon length of service at the mandatory retirement age. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

The expected rate of return assumptions for U.K pension plan assets are based mainly on historical performance achieved over a long period of time (15 to 20 years) encompassing many business and economic cycles. The Company assumed a weighted average expected long-term rate on plan assets for the overall scheme of 4.25%.

**Tax Effect on Accumulated Other Comprehensive Loss**

As of March 31, 2018 and December 31, 2017, the Company recorded actuarial losses of $11.5 million and $11.1 million in accumulated other comprehensive loss on the condensed consolidated balance sheets, respectively, which is net of a deferred tax benefit of $2.0 million.

**Pension and Post Retirement Expense**

The components of the net periodic benefit cost are as follows:

| | Three Months ended March 31, 2018 | Three Months ended March 31, 2017 |
|---|---|---|
| Service cost | $ 2 | $ 2 |
| Interest cost | 586 | 553 |
| Expected return on plan assets | (719) | (577) |
| **Amortization:** | | |
| Amortization of prior service cost | (36) | (32) |
| Amortization of net (gain) loss | 463 | 500 |
| **Net periodic benefit cost** | $ 296 | $ 446 |

Upon adopting ASU no. 2017-07 as described in Note 2, the company now records pension interest cost within Interest expense, net. Expected return on plan assets, amortization of prior service costs, and amortization of net losses are recorded within Other income, net. Service cost is recorded within Cost of Revenue.

**Employer Contributions**

The Company's funding of employer contributions is based on governmental requirements and differs from those methods used to recognize pension expense. The Company made contributions of $0.6 million and $0.6 million to its pension plans during the three months ended March 31, 2018 and 2017, respectively. The Company has fully funded the pension plans for 2018 based on current plan provisions.

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**Exela Technologies, Inc. and Subsidiaries**
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*(in thousands of United States dollars except share and per share amounts)*
*(Unaudited)*

**9. Commitments and Contingencies**

**Appraisal Demand**

On September 21, 2017, stockholders of our wholly-owned subsidiary SourceHOV, who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the Business Combination Transaction, which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their shares at the time of the Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses. On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). Trial is currently scheduled for June 2019. At this early stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate any loss or range of loss that may arise from the Appraisal Action.

**10. Fair Value Measurement**

**Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis**

The carrying amount of assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable approximated their fair value as of March 31, 2018 and December 31, 2017 due to the relative short maturity of these instruments. Management estimates the fair values of the secured term loan and secured notes at approximately 100.9% and 101.0% respectively, of the respective principal balance outstanding as of March 31, 2018. The carrying value approximates the fair value for the long-term debt. Other debt represents the Company's outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company and as such, the cost incurred would approximate fair value. Property and equipment, intangible assets, capital lease obligations, and goodwill are not required to be re-measured to fair value on a recurring basis. These assets are evaluated for impairment if certain triggering events occur. If such evaluation indicates that impairment exists, the respective asset is written down to its fair value.

The Company determined the fair value of its long-term debt using Level 2 inputs including the recent issue of the debt, the Company's credit rating, and the current risk-free rate. The Company's contingent liabilities related to prior acquisitions are re-measured each period and represent a Level 2 measurement as it is based on using an earn out method based on the agreement terms.

The following table provides the carrying amounts and estimated fair values of the Company's financial instruments as of March 31, 2018 and December 31, 2017:

| | | | Fair Value Measurements | | |
|---|---|---|---|---|---|
| **As of March 31, 2018** | **Carrying Amount** | **Fair Value** | **Level 1** | **Level 2** | **Level 3** |
| Recurring and nonrecurring assets and liabilities: | | | | | |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |
| Long-term debt | 1,277,029 | 1,356,297 | | 1,356,297 | |
| Interest rate swap asset | 4,625 | 4,625 | — | 4,625 | |
| | $ 1,282,375 | $ 1,361,643 | $ — | $ 1,360,922 | $ 721 |

*(in thousands of United States dollars except share and per share amounts)*

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| As of December 31, 2017 | Carrying Amount | Fair Value | Fair Value measurements Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| Recurring and nonrecurring assets and liabilities: | | | | | |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |
| Long-term debt | 1,276,094 | 1,308,478 | | 1,308,478 | |
| Interest rate swap asset | 1,297 | 1,297 | — | 1,297 | |
| | $ 1,278,112 | $ 1,310,496 | $ — | $ 1,309,775 | $ 721 |

The significant unobservable inputs used in the fair value of the Company's acquisition contingent liabilities are the discount rate, growth assumptions, and revenue thresholds. Significant increases (decreases) in the discount rate would have resulted in a lower (higher) fair value measurement. Significant increases (decreases) in the forecasted financial information would have resulted in a higher (lower) fair value measurement. For all significant unobservable inputs used in the fair value measurement of the Level 3 liabilities, a change in one of the inputs would not necessarily result in a directionally similar change in the other based on the current level of billings.

The following table reconciles the beginning and ending balances of net assets and liabilities classified as Level 3 for which a reconciliation is required:

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Balance as of Beginning of Period | $ 721 | $ 721 |
| Payments/Reductions | — | — |
| Balance as of End of Period | $ 721 | $ 721 |

**11. Stock-Based Compensation**

At Closing, SourceHOV had 24,535 restricted stock units ("RSUs") outstanding under its 2013 Long Term Incentive Plan ("2013 Plan"). Simultaneous with the Closing, the 2013 Plan, as well as all vested and unvested RSUs under the 2013 Plan, were assumed by Ex-Sigma, LLC ("ExSigma"), an entity formed by the former SourceHOV equity holders, which is also the Company's principal stockholder. In accordance with U.S. GAAP, the Company will continue to incur compensation expense related to the 9,880 unvested RSUs as of July 12, 2017 on a straight-line basis until fully vested, as the recipients of the RSUs are employees of the Company. Subject to continuous employment and other terms of the 2013 Plan, all remaining unvested RSUs with an initial vesting period of 3 or 4 years will vest in April 2019. Stock-based compensation expense is recorded within Selling, general, and administrative expenses. The Company incurred total compensation expense of $0.9 million related to these awards for the three months ended March 31, 2018.

**Exela 2018 Stock Incentive Plan**

On January 17, 2018, Exela's 2018 Stock Incentive Plan (the "2018 Plan") became effective. The 2018 Plan provides for the grant of incentive and nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, performance awards, and other stock-based compensation to eligible participants. Under the 2018 Plan, stock options are granted at a price per share not less than 100% of the fair market value per share of the underlying stock at the grant date. The plan administrator determines the vesting period for each option award on the grant date, and the options generally expire 10 years from the grant date. The Company will be authorized to issue up to 8,323,764 shares of Common Stock. No awards have been issued under the 2018 Plan as of March 31, 2018.

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*(Unaudited)*

A summary of the status of restricted stock units as of March 31, 2018 and December 31, 2017 and the changes during the periods then ended is presented as follows:

| | Number of Shares | Weighted Remaining Contractural Life (Years) | Weighted Average Aggregate Intrinsic Value ($) |
|---|---|---|---|
| Nonvested at January 1, 2017 | 8,887 | 2.01 | $ 1,567 |
| Shares granted | — | | — |
| Shares forfeited | (1,192) | | — |
| Shares vested | (2,295) | | — |
| Nonvested at December 31, 2017 | 5,400 | 1.33 | $ 1,633 |
| Shares granted | — | | — |
| Shares forfeited | — | | — |
| Shares vested | — | | — |
| Nonvested at March 31, 2018 | 5,400 | 1.08 | $ 1,573 |

As of March 31, 2018, there was approximately $5.0 million of total unrecognized compensation expense related to restricted stock, which will be recognized over the respective service period of approximately 1.08 years until April of 2019. There were 24,535 restricted stock units outstanding, of which 5,400 were unvested as of March 31, 2018.

**Restricted Stock Unit Grants**

As part of the 2018 plan Exela issued Restricted Stock Units ("RSUs") to directors on April 2, 2018. The RSUs are subject to all of the terms and conditions of the 2018 Plan. In total Exela issued 207,020 units at a grant date fair value of $1.1 million. Provided that the Holder has not undergone a Termination prior to the applicable vesting date, 86,874 of the shares issued shall vest immediately prior to the 2018 annual meeting of the stockholders of the Company. Provided that Holder has not undergone a Termination prior to the applicable vesting date, for 120,146 of the shares issued, thirty-three and one third percent of the Restricted Stock Units shall vest immediately prior to each of the 2018 annual meeting of the stockholders of the Company, the 2019 annual meeting of the stockholders of the Company and the 2020 annual meeting of the stockholders of the Company.

**12. Stockholders' Equity**

The following description summarizes the material terms and provisions of the securities that the Company has authorized.

**Common Stock**

The Company is authorized to issue 1,600,000,000 shares of common stock, par value $0.0001 per share. At March 31, 2018 the Company had 152,515,918 shares of common stock outstanding: a) 80,600,000 shares of common stock were issued to to Ex-Sigma, b) 30,600,000 shares of common stock to the sole shareholder of Novitex, c) 12,093,331 shares of common stock to the shareholders of Quinpario who did not redeem their shares, d) 3,609,375 to certain third party advisors involved in the Business Combination, and 19,599,818 shares of common stock issued to holders as part of a private placement at $8 per share. Certain shareholders of Quinpario were offered 25% common stock bonuses if

they executed conversion agreements within a specified time limit. No agreements were executed for the three months ended March 31, 2018. As of March 31, 2018, there were no additional issuances of common stock.

Except as otherwise required by law or as otherwise provided in any certificate of designation for any series of preferred stock, the holders of Exela Common Stock possess all voting power for the election of Exela's directors and all other matters requiring stockholder action and will at all times vote together as one class on all matters submitted to a vote of Exela stockholders. Holders of Exela Common Stock are entitled to one vote per share on matters to be voted on by stockholders. Holders of Exela Common Stock will be entitled to receive such dividends and other distributions, if any, as may be declared from time to time by the board of directors in its discretion out of funds legally available therefor and shall share equally on a per share basis in such dividends and distributions. The holders of the common stock have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the common stock.

**Preferred Stock**

The Company is authorized to issue 20,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors. At March 31, 2018, the Company had 4,569,233 shares of Series A Preferred Stock outstanding. The par value of Series A Preferred Stock is $0.0001 per share. Each share of Series A Convertible Preferred Stock will be convertible at the holder's option, at any time after the six-month anniversary and prior to the third anniversary of the issue date, initially into 1.2226 shares of Exela Common Stock.

Holders of the Series A Preferred Stock will be entitled to receive cumulative dividends at a rate per annum of 10% of the Liquidation Preference per share of Series A Preferred Stock, paid or accrued quarterly in arrears. From the issue date until the third anniversary of the issue date, the amount of all accrued but unpaid dividends on the Series A Preferred Stock will be added to the Liquidation Preference without any action by the Company's board of directors. For the quarter ended March 31, 2018 this amount was $0.9 million as reflected on the Consolidated Statement of Operations.

Following the third anniversary of the issue date, dividends on the Series A Preferred Stock will be accrued by adding to the Liquidation Preference or paid in cash, or a combination thereof. In addition, holders of the Series A Preferred Stock will participate in any dividend or distribution of cash or other property paid in respect of the Common Stock pro rata with the holders of the Common Stock (other than certain dividends or distributions that trigger an adjustment to the conversion rate, as described in the Certificate of Designations), as if all shares of Series A Preferred Stock had been converted into Common Stock immediately prior to the date on which such holders of the Common Stock became entitled to such dividend or distribution.

**Treasury Stock**

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires in 24 months. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. No shares were repurchased for the three months ended March 31, 2018.

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Under the Share Buyback Program we purchased an additional 136,905 shares during April 2018 at an average share price of $4.70.

**Warrants**

At March 31, 2018, there were a total of 34,980,163 warrants outstanding. As part of its IPO, Quinpario had issued 35,000,000 units including one share of common stock and one warrant. The warrants are traded on the OTC Bulletin Board as of March 31, 2018.

Each warrant entitles the holder to purchase one-half of one share of common stock at a price of $5.75 per half share ($11.50 per whole share). Warrants may be exercised only for a whole number of shares of common stock. No fractional shares will be issued upon exercise of the warrants. Each warrant is currently exercisable and will expire July 12, 2022 (five years after the completion of the Business Combination), or earlier upon redemption.

The Company may call the warrants for redemption at a price of $0.01 per warrant upon a minimum of 30 days' prior written notice of redemption, if, and only if, the last sales price of our shares of common stock equals or exceeds $24.00 per share for any 20 trading days within a 30 trading day period (the "30-day trading period") ending three business days before we send the notice of redemption, and if, and only if, there is a current registration statement in effect with respect to the shares of common stock underlying such warrants commencing five business days prior to the 30-day trading period and continuing each day thereafter until the date of redemption.

**13. Related-Party Transactions**

**Leasing Transactions**

Certain operating companies lease their operating facilities from HOV RE, LLC and HOV Services Limited, which are affiliates through common interest held by Ex-Sigma 2 LLC, our largest stockholder. The rental expense for these operating leases was $0.2 million for the three months ended March 31, 2018 and none were incurred for the three months ended March 31, 2017.

**Consulting Agreement**

The Company receives services from Oakana Holdings, Inc. The Company and Oakana Holdings, Inc. are related through a family relationship between certain shareholders and the president of Oakana Holdings, Inc. The expense recognized for these services was approximately $0.1 million for the three months ended March 31, 2018 and no such expense was recognized for the three months ended March 31, 2017.

The Company receives consulting services from Shadow Pond, LLC. Shadow Pond, LLC is wholly owned and controlled by Vik Negi, our Executive Vice President Treasury and Business Affairs. The consulting arrangement was established to compensate Mr. Negi for his services to the Company prior to becoming an employee. The expense recognized for these services was approximately $0.1 million and $0.1 million for three months ended March 31, 2018 and 2017, respectively. We expect the consulting arrangement with Shadow Pond, LLC to terminate on April 1, 2018 and for Mr.Negi to continue to provide services as an employee of the Company.

**Relationship with HandsOn Global Management**

The Company incurred management fees to HandsOn Global Management ("HGM"), SourceHOV's former owner, of $1.5 million for the three months ended March 31, 2017. The management agreement terminated in 2017 and there were no such fees for the three months ended March 31, 2018.

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Pursuant to a master agreement dated January 1, 2015 between Rule 14, LLC and SourceHOV, the Company incurs marketing fees to Rule 14, LLC, a portfolio company of HGM. Similarly, SourceHOV is party to ten master agreements with entities affiliated with HGM's ventures portfolio, each of which were entered into during 2015 and 2016. Each master agreement provides SourceHOV with free use of technology and includes a reseller arrangement pursuant to which SourceHOV is entitled to sell these services to third parties. Any revenue earned by SourceHOV in such third-party sale is shared 75%/25% with each of HGM's venture affiliates in favor of SourceHOV. The brands Zuma, Athena, Peri, BancMate, Spring, Jet, Teletype, CourtQ and Rewardio are part of the HGM ventures portfolio. SourceHOV has the license to use and resell such brands, as described therein. We incurred fees relating to these agreements of $0.2 million and $0.1 million for the three months ended March 31, 2018 and 2017, respectively.

**Relationship with HOV Services, Ltd.**

HOV Services, Ltd. provides the Company data capture and technology services. HOV Services, Ltd is an indirect equity holder of Ex-Sigma LLC. The expense recognized for these services was approximately $0.4 million for the three months ended March 31, 2018 and 2017 and is included in cost of revenue in the consolidated statements of operations.

**Relationship with Apollo Global Management, LLC**

The Company provides services to and receives services from certain Apollo affiliated companies. Funds managed by Apollo Global Management, LLC have the right to designate two of the Company's directors. On November 18, 2014, Novitex Solutions, entered into a master services agreement with Management Holdings, an indirect wholly owned subsidiary of Apollo. Pursuant to this master services agreement, Novitex Solutions provides Management Holdings printer supplies and maintenance services, including toner maintenance, training, quarterly business review and printer procurement. We recognized revenue of approximately $0.1 million in our consolidated statements of operations from Apollo affiliated companies under this agreement for the three months ended March 31, 2018 and 2017.

On January 18, 2017, Novitex Solutions entered into a master purchase and professional services agreement with Caesars Enterprise Services, LLC ("Caesars"). Caesars is controlled by investment funds affiliated with Apollo. Pursuant to this master purchase and professional services agreement, Novitex Solutions provides managed print services to Caesars, including general equipment operation, supply management, support services and technical support. We recognized revenue of approximately $1.0 million in our consolidated statements of operations from Caesars under this master purchase and professional services agreement for the three months ended March 31, 2018.

On May 5, 2017, Novitex Solutions entered into a master services agreement with ADT LLC. ADT LLC is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Novitex Solutions provides ADT LLC with mailroom and onsite mail delivery services at an ADT LLC office location and managed print services, including supply management, equipment maintenance and technical support services. We recognized revenue of less than $0.1 million in our consolidated statements of operations from ADT LLC under this master services agreement for the three months ended March 31, 2018.

On July 20, 2017, Novitex Solutions entered into a master services agreement with Diamond Resorts Centralized Services Company. Diamond Resorts Centralized Services Company is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Novitex Solutions provides commercial print and promotional product procurement services to Diamond Resorts Centralized Services Company, including sourcing, inventory management and fulfillment services. The Company recognized revenue of $2.4 million and cost of revenue of $0.1 million from Diamond Resorts Centralized Services Company under this master services agreement during the three months ended March 31, 2018.

In April 2016, the Company's subsidiary, Novitex Enterprise Solutions, Inc. ("Novitex Solutions") entered into a master services agreement with Presidio Networked Solutions Group, LLC ("Presidio Group"), a wholly-owned subsidiary of Presidio, Inc., a portion of which is owned by affiliates of Apollo and with a common Apollo designated director. Pursuant to this master services agreement, Presidio Group provides Novitex Solutions with employees, subcontractors, and/or goods and services. For the three months ended March 31, 2018 there were related party expenses of $0.1 million for this service.

*(in thousands of United States dollars except share and per share amounts)*

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**Payable Balances with Affiliates**

Payable balances with affiliates as of March 31, 2018 and December 31, 2017 are as follows:

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| HOV Services, Ltd | $ 410 | $ 286 |
| Rule 14 | 37 | 158 |
| HGM | 13,420 | 13,689 |
| Apollo affiliated company | 303 | 312 |
| Other | 2 | — |
| | $ 14,172 | $ 14,445 |

**14. Segment Information**

The Company's operating segments are significant strategic business units that align its products and services with how it manages its business, approach the markets and interacts with its clients. The Company is organized into three segments: ITPS, HS, and LLPS.

**ITPS:** Our ITPS segment provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries.

**HS:** Our HS segment operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets.

**LLPS:** Our LLPS segment provides a broad and active array of legal services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters.

The chief operating decision maker reviews operating segment revenue and gross profit. The Company does not allocate SG&A, depreciation and amortization, interest expense and sundry, net. The Company manages assets on a total company basis, not by operating segment, and therefore asset information and capital expenditures by operating segments are not presented.

| | Three months ended March 31, 2018 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | 311,937 | 58,632 | 22,598 | 393,167 |
| Cost of revenue | 245,173 | 34,956 | 13,663 | 293,792 |
| Selling, general and administrative expenses | | | | 45,595 |
| Depreciation and amortization | | | | 38,019 |
| Related party expense | | | | 1,105 |
| Interest expense, net | | | | 38,017 |
| Sundry expense, net | | | | (64) |
| Other income, net | | | | (3,328) |
| **Net loss before income taxes** | | | | $ (19,969) |

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**Exela Technologies, Inc. and Subsidiaries**
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*(in thousands of United States dollars except share and per share amounts)*
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| | Three months ended March 31, 2017 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | 135,797 | 59,078 | 23,385 | 218,260 |
| Cost of revenue | 91,599 | 37,828 | 14,281 | 143,708 |
| Selling, general and administrative expenses | | | | 35,581 |
| Depreciation and amortization | | | | 21,320 |
| Related party expense | | | | 2,385 |
| Interest expense, net | | | | 26,219 |
| Sundry expense, net | | | | 2,724 |
| Other income, net | | | | — |
| **Net loss before income taxes** | | | | $ (13,677) |

**15. Subsequent Events**

On April 10, 2018 Exela announced the acquisition of Asterion International Group ("Asterion"), a well-established provider of technology driven business process outsourcing, document management and business process automation (BPA) across Europe. Asterion currently serves over 250 key customers in Europe from 13 operating locations and 30 customer sites. The purchase price was approximately $19.5 million. This acquisition will not only enable Asterion's customers to access Exela's full suite of BPA solutions but also strategically position Exela to expand its existing revenue base through a broader portfolio of offerings with a larger European presence.

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis together with our consolidated financial statements and the related notes included elsewhere in this Form 10-Q. Among other things, the condensed consolidated financial statements include more detailed information regarding the basis of presentation for the financial data than included in the following discussion.*

***Forward Looking Statements***

*Certain statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this quarterly report are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by words such as "may", "should", "would", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "seem", "seek", "continue", "future", "will", "expect", "outlook" or other similar words, phrases or expressions. These forward-looking statements include statements regarding our industry, future events, the estimated or anticipated future results and benefits of the Business Combination, future opportunities for the combined company, and other statements that are not historical facts. These statements are based on the current expectations of Exela management and are not predictions of actual performance. These statements are subject to a number of risks and uncertainties regarding Exela's businesses and actual results may differ materially. The factors that may affect our results include, among others: the impact of political and economic conditions on the demand for our services; the impact of a data or security breach; the impact of competition or alternatives to our services on our business pricing and other actions by competitors; our ability to address technological development and change in order to keep pace with our industry and the industries of our customers; the impact of terrorism, natural disasters or similar events on our business; the effect of legislative and regulatory actions in the United States and internationally; the impact of operational failure due to the unavailability or failure of third-party services on which we rely; the effect of intellectual property infringement; and other factors discussed in this quarterly report and our Annual Report on Form 10-K for the year ended December 31, 2017 (our "Annual Report") under the heading "Risk Factors" and otherwise identified or discussed in this quarterly report. You should consider these factors carefully in evaluating forward-looking statements and are cautioned not to place undue reliance on such statements, which speak only as of the date of this quarterly report. It is impossible for us to predict new events or circumstances that may arise in the future or how they may affect us. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this quarterly report. We are not including the information provided on the websites referenced herein as part of, or incorporating such information by reference into, this quarterly report. In addition, forward-looking statements provide Exela's expectations, plans or forecasts of future events and views as of the date of this quarterly report. Exela anticipates that subsequent events and developments will cause Exela's assessments to change. These forward-looking statements should not be relied upon as representing Exela's assessments as of any date subsequent to the date of this quarterly report.*

**Overview**

We are a global provider of transaction processing solutions, enterprise information management, document management and digital business process services. Our technology-enabled solutions allow multi-national organizations to address critical challenges resulting from the massive amounts of data obtained and created through their daily global operations. Our solutions address the life cycle of transaction processing and enterprise information management, from enabling payment gateways and data exchanges across multiple systems, to matching inputs against contracts and handling exceptions, to ultimately depositing payments and distributing communications. We believe our process expertise,

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information technology capabilities and operational insights enable our clients' organizations to more efficiently and effectively execute transactions, make decisions, drive revenue and profitability, and communicate critical information to their employees, customers, partners, and vendors.

**History**

We are a former blank check company that completed our initial public offering on January 22, 2015. In July 2017, Exela Technologies, Inc. ("Exela"), formerly known as Quinpario Acquisition Corp. 2 ("Quinpario"), completed its acquisition of SourceHOV Holdings, Inc. ("SourceHOV") and Novitex Holdings, Inc. ("Novitex") pursuant to the business combination agreement dated February 21, 2017 ("Business Combination"). In conjunction with the completion of the Business Combination, Quinpario was renamed as Exela Technologies, Inc.

The Business Combination was accounted for as a reverse merger for which SourceHOV was determined to be the accounting acquirer. Outstanding shares of SourceHOV were converted into equity in a newly formed entity that acquired our common shares, presented as a recapitalization, and the net assets of Quinpario were acquired at historical cost, with no goodwill or other intangible assets recorded. The acquisition of Novitex was treated as a business combination under ASC 805 and was accounted for using the acquisition method. The strategic combination of SourceHOV and Novitex formed Exela, which is one of the largest global providers of information processing solutions based on revenues.

**Basis of Presentation**

This analysis is presented on a consolidated basis. In addition, a description is provided of significant transactions and events that have an impact on the comparability of the results being analyzed. Due to our specific situation, the presented financial information for the quarter ended March 31, 2018 is only partially comparable to the financial information for the quarter ended March 31, 2017. Since SourceHOV was deemed the accounting acquirer in the Business Combination consummated on July 12, 2017, the presented financial information for the quarter ended March 31, 2017 reflects the financial information and activities of SourceHOV only. The presented financial information for the quarter ended March 31, 2018 includes the financial information and activities for SourceHOV and Novitex for the period January 1, 2018 to March 31, 2018. This lack of comparability needs to be taken into account when reading the discussion and analysis of our results of operations and cash flows.

**Our Segments**

Our three reportable segments are Information & Transaction Processing Solutions (''ITPS''), Healthcare Solutions (''HS''), and Legal & Loss Prevention Services (''LLPS''). These segments are comprised of significant strategic business units that align our transaction processing solutions and enterprise information management products and services with how we manage our business, approach our key markets and interact with our clients based on their respective industries.

**ITPS:** Our largest segment, ITPS, provides a wide range of solutions and services designed to aid businesses in information capture, processing, and distribution to customers primarily in the financial services, commercial, public sector and legal industries. Our major customers include the top 10 U.S. banks, 9 of the top 10 U.S. insurance companies, 5 of the top U.S. telecom companies, over 40 utility companies, over 30 state and county departments, and over 80 government entities. Our ITPS offerings enable companies to increase availability of working capital, reduce turnaround times for application processes, increase regulatory compliance and enhance consumer engagement.

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**HS**: HS operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets. We serve the top 5 healthcare insurance payers and over 900 healthcare providers.

**LLPS**: Our LLPS segment provides a broad and active array of support services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters. Our client base consists of corporate counsel, government attorneys, and law firms.

**Acquisitions**

In July 2017, we completed the Business Combination. SourceHOV was deemed to be the accounting acquirer, and is a leading provider of platform-based enterprise information management and transaction processing solutions primarily for the healthcare, banking and financial services, commercial, public sector and legal industries. Through the acquisition of SourceHOV and Novitex, we expect to realize revenue synergies, leverage brand awareness, strengthen margins, generate greater free cash flow, expand the existing Novitex sales channels, and increase utilization of the existing workforce. We anticipate opportunities for growth through the ability to leverage additional future services and capabilities.

Prior to the Business Combination, SourceHOV transformed into a multi-industry solution provider and acquired key technology through the acquisition of TransCentra, Inc. (''TransCentra''), a provider of integrated outsourced billing, remittance processing and imaging software and consulting services. The addition of TransCentra increased SourceHOV's footprint in the remittance transaction processing and presentment area, expanded its mobile banking offering and enabled significant cross-selling and up-selling opportunities.

On April 10, 2018 Exela announced the acquisition of Asterion International Group ("Asterion"), a well-established provider of technology driven business process outsourcing, document management and business process automation (BPA) across Europe. Asterion currently serves over 250 key customers in Europe from 13 operating locations and 30 customer sites. The purchase price was approximately $19.5 million. The acquisition comes with minimal customer overlap and is strategic to expand Exela's pro forma combined European business to over $200 million in annual revenue. This acquisition will not only enable Asterion's customers to access Exela's full suite of BPA solutions but also strategically position Exela to expand its existing revenue base through a broader portfolio of offerings with a larger European presence.

**Revenues**

ITPS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed, licensing and maintenance fees for technology sales, and a mix of fixed management fee and transactional revenue for document logistics and location services. HS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed for healthcare payers and providers. LLPS revenues are primarily based on time and materials pricing as well as through transactional services priced on a per item basis.

**People**

We draw on the business and technical expertise of our talented and diverse global workforce to provide our customers with high-quality services. Our business leaders bring a strong diversity of experience in our industry and a track record of successful performance and execution.

Costs associated with our employees represent the most significant expense for our business. We incurred personnel costs of $167.1 million and $95.6 million for the three months ended March 31, 2018

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and 2017, respectively. The majority of our personnel costs are variable and are incurred only while we are providing our services.

**Key Performance Indicators**

We use a variety of operational and financial measures to assess our performance. Among the measures considered by our management are the following:

- Revenue by segment;
- EBITDA; and
- Adjusted EBITDA

**Revenue**

We analyze our revenue by comparing actual monthly revenue to internal projections and prior periods across our operating segments in order to assess performance, identify potential areas for improvement, and determine whether our segments are meeting management's expectations.

***EBITDA and Adjusted EBITDA***

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integrations costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses. See ''—Other Financial Information (Non-GAAP Financial Measures)'' for more information and a reconciliation of EBITDA and Adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP.

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**Results of Operations**

Three Months Ended March 31, 2018 compared to Three Months Ended March 31, 2017:

| | Three Months ended March 31, 2018 | 2017 | Change | % Change |
|---|---|---|---|---|
| Revenue: | | | | |
| ITPS | $ 311,937 | $ 135,797 | $ 176,140 | 129.71% |
| HS | 58,632 | 59,078 | (446) | -0.75% |
| LLPS | 22,598 | 23,385 | (787) | -3.37% |
| Total revenue | 393,167 | 218,260 | 174,907 | 80.14% |
| Cost of revenues: | | | | |
| ITPS | 245,173 | 91,599 | 153,574 | 167.66% |
| HS | 34,956 | 37,828 | (2,872) | -7.59% |
| LLPS | 13,663 | 14,281 | (618) | -4.33% |
| Total cost of revenues | 293,792 | 143,708 | 150,084 | 104.44% |
| Selling, general and administrative expenses | 45,595 | 35,581 | 10,014 | 28.14% |
| Depreciation and amortization | 38,019 | 21,320 | 16,699 | 78.33% |
| Related party expense | 1,105 | 2,385 | (1,280) | -53.67% |
| Operating income | 14,656 | 15,266 | (610) | -4.00% |
| Interest expense, net | 38,017 | 26,219 | 11,798 | 45.00% |
| Sundry expense/(income), net | (64) | 2,724 | (2,788) | -102.35% |
| Other income, net | (3,328) | — | (3,328) | — |
| Net loss before taxes | (19,969) | (13,677) | (6,292) | 46.00% |
| Income tax (expense) benefit | (4,025) | (2,004) | (2,021) | 100.85% |
| Net loss | (23,994) | (15,681) | (8,313) | 53.01% |

***Revenue***

The increase in total revenues was primarily related to the acquisition of Novitex in July 2017. Our ITPS, HS, and LLPS segments constituted 79.3%, 14.9%, and 5.7% of total revenue, respectively, for the three months ended March 31, 2018, compared to 62.2%, 27.1%, and 10.7%, respectively, for the three months ended March 31, 2017. The revenue changes by reporting segment were as follows:

ITPS—The increase was primarily attributable to the acquisition of Novitex in 2017, which contributed $174.1 million, or 98.9% of the increase.

HS—For the three months ended March 31, 2018 compared to the three months ended March 31, 2017 the nature and amounts of revenues remained materially consistent.

LLPS—For the three months ended March 31, 2018 compared to the three months ended March 31, 2017 the nature and amounts of revenues remained materially consistent.

***Cost of Revenue***

The increase in total cost of revenue was primarily related to the acquisition of Novitex in July 2017. The increase was partially offset by decreases in the HS and LLPS segments. The cost of revenue changes by operating segment was as follows:

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ITPS—The increase was primarily attributable to the acquisition of Novitex in 2017, which contributed approximately $150.4 million, or 97.9% of the increase.

HS—The decrease was primarily driven by cost saving synergies.

LLPS—The decrease was primarily attributable to a corresponding decrease in revenues.

***Selling, General and Administrative Expenses ("SG&A")***

The increase was primarily attributable to the acquisition of Novitex in 2017, which contributed $9.5 million in expense for the three months ended March 31, 2018.

***Depreciation & Amortization***

The increase was primarily attributable to accelerated amortization of Novitex and TransCentra trademarks resulting in higher amortization expense.

***Related Party Expenses***

The decrease was primarily attributable the termination of the management agreement with Hands on Global Management resulting in lower management fees paid of $1.5 million.

***Interest Expense***

The increase was primarily attributable to the issuance of new debt in conjunction with the Business Combination.

***Sundry Expense***

The decrease was attributable to foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

The increase is primarily attributable to an interest rate swap entered into in 2017. The interest rate swap was not designated as a hedge. As such, changes in the fair value of the derivative of $3.3 million for the quarter ended March 31, 2018 were recorded directly in earnings.

***Income Tax (Expense) Benefit***

We had income tax expense of $4.0 million for the three months ended March 31, 2018 compared to $2.0 million for the three months ended March 31, 2017. The change in the income tax expense was primarily attributable to our change in judgment related to the realizability of certain deferred tax assets. The change in the effective tax rate for the three months ended March 31, 2018 resulted from permanent tax adjustments and valuation allowances against disallowed interest expense deferred tax assets that are not more-likely-than-not to be realized.

**Other Financial Information (Non-GAAP Financial Measures)**

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integrations costs; other non-cash charges, including non-cash

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compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses.

We present EBITDA and Adjusted EBITDA because we believe they provide useful information regarding the factors and trends affecting its business in addition to measures calculated under GAAP. Additionally, our credit agreement requires us to comply with certain EBITDA related metrics. Refer to ‘‘—Liquidity and Capital Resources—Credit Facility.’’

***Note Regarding Non-GAAP Financial Measures***

EBITDA and Adjusted EBITDA are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial performance and results of operations as our board of directors and management use EBITDA and Adjusted EBITDA to assess our financial performance, because it allows them to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization) and items outside the control of our management team. Net loss is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some but not all items that affect the most directly comparable GAAP financial measures. You should not consider EBITDA and Adjusted EBITDA in isolation or as substitutes for an analysis of our results as reported under GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

The following tables present a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the three months ended March 31, 2018 and 2017:

| | Three months ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net Loss | $ (23,994) | $ (15,681) |
| Taxes | 4,025 | 2,004 |
| Interest Expense | 38,017 | 26,219 |
| Depreciation and Amortization | 38,019 | 21,320 |
| EBITDA | 56,067 | 33,862 |
| Optimization and Restructuring expenses (1) | 14,513 | 4,337 |
| Transaction related costs (2) | 1,057 | 5,066 |
| Non-cash equity compensation (3) | 959 | 310 |
| Other non-cash charges (4) | — | 75 |
| Loss on sale of of assets | 299 | — |
| Non-cash gain on sale of Meridian (5) | — | (251) |
| Management, Board Fees and expenses (6) | — | 2,060 |
| Gain/Loss on Derivative Instruments | (3,328) | — |
| Adjusted EBITDA | 69,567 | 45,459 |

1. Adjustment represents net salary and benefits associated with positions that are part of the on-going savings initiatives including severance, retention bonuses, and related fees and expenses. Additionally, the adjustment includes charges incurred by us to terminate existing lease and vendor contracts as part of the on-going savings initiatives.

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2. Represents costs incurred related to transactions for completed or contemplated transactions during the period.
3. Represents the non-cash charges related to restricted stock units granted by Ex-Sigma, LLC to our employees that vested during the year.
4. Represents fair value adjustments to deferred revenue and deferred rent accounts established as part of purchase accounting.
5. Represents a gain recognized on the disposal of Meridian Consulting Group, LLC.
6. Amount represents management fees paid to HGM and TransCentra's prior owner, Board of Directors fees and corresponding travel, and other expenses (e.g., rating agency fees, chargebacks) which are not expected to continue on a go-forward basis.

**Three months ended March 31, 2018 compared to the Three Months ended March 31, 2017**

***EBITDA and Adjusted EBITDA***

EBITDA was $56.1 million for the three months ended March 31, 2018 compared to $33.9 million for the three months ended March 31, 2017. Adjusted EBITDA was $69.6 million for the three months ended March 31, 2018 compared to $45.5 million for the three months ended March 31, 2017. The increase in EBITDA was primarily due to a higher net loss amount and increased optimization and restructuring expenses for the three months ended March 31, 2018 resulting from the acquisition of Novitex in 2017.

**Liquidity and Capital Resources**

**Overview**

Our primary source of liquidity is principally cash generated from operating activities supplemented as necessary on a short-term basis by borrowings against our senior secured revolving credit facility. We believe our current level of cash and short-term financing capabilities along with future cash flows from operations are sufficient to meet the needs of the business.

We currently expect to spend approximately $40 to $45 million on total capital expenditures over the next twelve months. We believe that our operating cash flow and available borrowings under our credit facility will be sufficient to fund our operations for at least the next twelve months.

At March 31, 2018, cash and cash equivalents totaled $26.9 million and we had availability of $79.4 million under our senior secured revolving credit facility.

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**Cash Flows**

The following table summarizes our cash flows for the periods indicated:

| | Three months ended March 31, 2018 | Three months ended March 31, 2017 |
|---|---|---|
| Cash flow from operating activities | $ (20,083) | $ 4,230 |
| Cash flow used in investing activities | (8,643) | (4,181) |
| Cash flows (used in) provided by financing activities | (13,387) | 7,550 |
| Subtotal | (42,113) | 7,599 |
| Effect of exchange rates on cash | 55 | (44) |
| Net increase/(decrease) in cash | (42,058) | 7,555 |

**Analysis of Cash Flow Changes between the Three Months Ended March 31, 2018 and March 31, 2017**

Operating Activities—Net cash used by operating activities was $20.1 million for the three months ended March 31, 2018, compared to $4.2 million provided for the three months ended March 31, 2017. The decrease of $24.3 million in cash flow from operating activities was primarily due to higher interest payments on long-term debt in the first quarter of 2018 partially offset by lower cash inflows from accounts receivable due to unbilled receivables from new customers.

Investing Activities—Net cash used in investing activities was $8.6 million for the three months ended March 31, 2018 compared to $4.2 million for the three months ended March 31, 2017. The decrease of $4.4 million in cash used in investing activities was primarily due to the sale of Meridian in Q1 2017.

Financing Activities— Net cash used by financing activities was $13.4 million for the three months ended March 31, 2018, compared to $7.6 million provided for the three months ended March 31, 2017. The decrease of $20.9 million in cash provided by financing activities was primarily due to contributions from shareholders during the first quarter of 2017 and increased cash paid for equity issuance costs during the first quarter of 2018, partially offset by lower principal payments on long-term obligations.

**Indebtedness**

As noted, in connection with the Business Combination on July 12, 2017, we acquired debt facilities and issued notes totaling $1.4 billion. Proceeds from the indebtedness were used to pay off credit facilities existing immediately before the Business Combination.

*Senior Credit Facilities*

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the “Credit Agreement”) providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, (i) a $350.0 million senior secured term loan maturing July 12, 2023 with an original issue discount of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022, none of which is currently drawn. The Credit Agreement provides for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company’s option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an

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applicable margin. The initial applicable margin for the senior secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity. As of March 31, 2018 the interest rate applicable for the first lien senior secured term loan was 10.0%.

*Senior Secured Notes*

Senior secured notes of $1.0 billion due July 2023 were also issued as part of the Business Combination. The notes bear interest at a rate of 10.0% per year. We pay interest on the notes on January 15 and July 15 of each year, commencing on January 15, 2018. The notes are guaranteed by subsidiary guarantors pursuant to a supplemental indenture.

*Letters of Credit*

As of March 31, 2018 and December 31, 2017, we had outstanding irrevocable letters of credit totaling approximately $20.6 million and $20.9 million, respectively, under the revolving credit facility.

**Contractual Obligations**

Our contractual obligations are described in our Form 10-K for the fiscal year ended December 31, 2017. There have been no material changes to that information since December 31, 2017.

**Potential Future Transactions**

We may, from time to time explore and evaluate possible strategic transactions, which may include joint ventures, as well as business combinations or the acquisition or disposition of assets. In order to pursue certain of these opportunities, additional funds will likely be required. There can be no assurance that we will enter into additional strategic transactions or alliances, nor do we know if we will be able to obtain the necessary financing for transactions that require additional funds on favorable terms, if at all.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

**Interest Rate Risk**

At March 31, 2018, we had $1,298.2 million of debt outstanding, with a weighted average interest rate of 9.9%. Interest is calculated under the terms of our credit agreement based on the greatest of certain specified base rates plus an applicable margin that varies based on certain factors. Assuming no change in the amount outstanding, the impact on interest expense of a 1% increase or decrease in the assumed weighted average interest rate would be approximately $13.0 million per year. In order to mitigate interest rate fluctuations with respect to term loan borrowings under the Credit Agreement, in November 2017, we entered into a three year; one-month LIBOR interest rate swap contract with a notional amount of $347.8 million, which at the time was the remaining principal balance of the term loan. The swap contract swaps out the floating rate interest risk related to the LIBOR with a fixed interest rate of 1.9275% effective January 12, 2018.

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The interest rate swap, which is used to manage our exposure to interest rate movements and other identified risks, was not designated as a hedge. As such, changes in the fair value of the derivative are recorded directly to other income in the amount of $3.3 million for the quarter ended March 31, 2018.

**Foreign Currency Risk**

We are exposed to foreign currency risks that arise from normal business operations. These risks include transaction gains and losses associated with intercompany loans with foreign subsidiaries and transactions denominated in currencies other than a location's functional currency. Contracts are denominated in currencies of major industrial countries.

**Market Risk**

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. We do not use derivatives for trading purposes, to generate income or to engage in speculative activity.

**Off Balance Sheet Arrangements**

At March 31, 2018, we had no material off balance sheet arrangements, except for operating leases. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements. Our operating leases are composed of various office and industrial buildings, machinery, equipment, and vehicles. As of December 31, 2017, our total future minimum lease payments under non-cancelable operating leases were $129.6 million. As of March 31, 2018, there were no material changes to either the nature or the amounts of operating leases as compared to the year ended December 31, 2017.

**ITEM 4. INTERNAL CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that material information required to be disclosed in our reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been detected.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective due to a material weakness in internal control over financial reporting described below.

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**Material Weakness identified as of December 31, 2017**

As of the year ended December 31, 2017, management identified a material weakness in internal controls over financial reporting relating to the supervision of specialists engaged to assist management in developing accounting conclusions with respect to a specific revenue contract and stock-based compensation accounting. We are addressing the material weakness through hiring additional experienced professionals. We have initiated changes in our process of evaluating information provided to and received from experts. We expect to be able to test the effectiveness of the changes in the second quarter of 2018. After successful effectiveness tests, we would be able to have remediated the material weakness.

**Management's Report on Internal Controls over Financial Reporting**

Our Annual Report on Form 10-K for the year ended December 31, 2017 did not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the three months ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

*Appraisal Demand*

On September 21, 2017, former stockholders of SourceHOV, who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the Business Combination, which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their shares at the time of the Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). The parties have commenced discovery. Trial is currently scheduled for June 2019. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate any loss or range of loss that may arise from the Appraisal Action. Pursuant to the terms of the Business Combination Agreement, if such appraisal rights are perfected, a corresponding portion of shares of our Common Stock issued to Ex-Sigma 2 LLC, our principal stockholder, will be forfeited at such time as the PIPE Financing (as defined in the Consent, Waiver and Amendment dated June 15, 2017) is repaid. The Company intends to vigorously defend against the Appraisal Action.

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*Other*

We are involved in various other legal proceedings that have arisen in the normal course of business. While the ultimate results of these matters cannot be predicted with certainty, we do not expect them to have a material adverse effect on our Consolidated Financial Statements.

**Item 1A. Risk Factors.**

For a discussion of certain risk factors affecting the Company, see Part I, Item 1A: Risk Factors of Exela Technologies, Inc.'s Annual Report on Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

There were no purchases made by or on behalf of us or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of shares of our Common Stock during the period January 1, 2018 through March 31, 2018:

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires 24 months after authorized. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. In November of 2017, the Company purchased 49,300 shares as part of the Program. As of March 31, 2018, 49,300 shares had been repurchased under the Share Buyback Program. The Company records treasury stock using the cost method. Under the Share Buyback Program, we purchased an additional 136,905 shares during April 2018 at an average share price of $4.70.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

| Exhibit No. | Description | |
|---|---|---|
| 2.1 | Business Combination Agreement, dated as of February 21, 2017, by and among Quinpario Acquisition Corp. 2, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., Novitex Holdings, Inc., SourceHOV Holdings, Inc., Novitex Parent, L.P, HOVS LLC and HandsOn Fund 4 I, LLC (2) | |
| 3.1 | Restated Certificate of Incorporation, dated July 12, 2017 (3) | |
| 3.2 | Amended and Restated Bylaws, dated July 12, 2017 (3) | |
| 4.1 | Specimen common stock Certificate (1) | |
| 4.2 | Specimen Warrant Certificate (1) | |
| 4.3 | Form of Warrant Agreement between Continental Stock Transfer & Trust Company and the Registrant (1) | |
| 4.4 | Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc. as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee (3) | |
| 4.5 | First Supplemental Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc., as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee (3) | |
| 10.1 | Amendment No. 1 to Amended & Restated Registration Rights Agreement, dated April 10, 2018, by and between the Company and the Holders (4) | |
| 31.1 | Certification of the Principal Executive Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 | Furnished |
| 31.2 | Certification of the Principal Financial and Accounting Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 | Furnished |

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| | | |
|---|---|---|
| 32.1 | Certification of the Principal Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 | Furnished |
| 32.2 | Certification of the Principal Financial and Accounting Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 | Furnished |
| 101.INS | XBRL Instance Document | Herewith |
| 101.SCH | XBRL Taxonomy Extension Schema | Herewith |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | Herewith |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase | Herewith |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase | Herewith |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | Herewith |

(1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-198988).
(2) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed on February 22, 2017.
(3) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 18, 2017.
(4) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on April 10, 2018.

**SIGNATURES**

Pursuant to the requirements of the Section 13 or 15 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 10th day of May, 2018.

EXELA TECHNOLOGIES, INC.

By: /s/ Ronald Cogburn
Ronald Cogburn
Chief Executive Officer (Principal Executive Officer)

By: /s/ James G. Reynolds
James G. Reynolds
Chief Financial Officer (Principal Financial and Accounting Officer)

# Exhibit 3

S&P Global
Market Intelligence

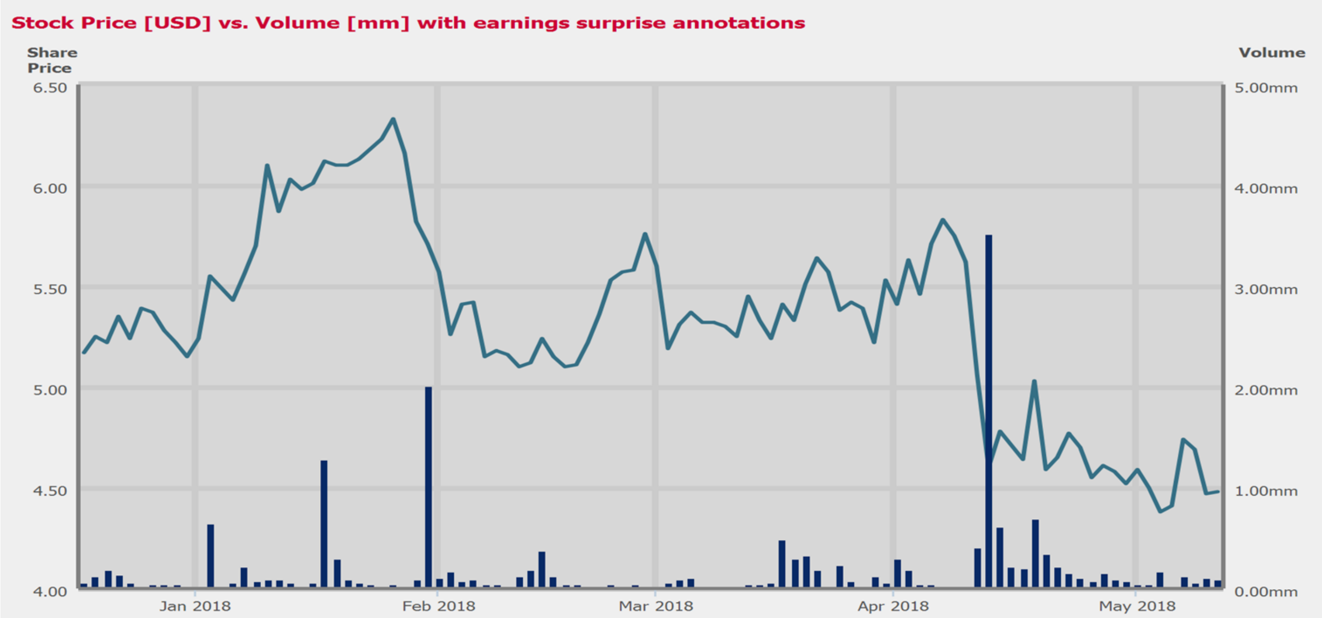
# Exela Technologies, Inc. NasdaqCM:XELA FQ1 2018 Earnings Call Transcripts

## Thursday, May 10, 2018 9:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ1 2018- | | | -FQ2 2018- | -FY 2018- | -FY 2019- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | (0.02) | (0.05) | NM | 0.00 | 0.10 | 0.48 |
| **Revenue (mm)** | 380.85 | 393.17 | ▲3.23 | 368.25 | 1533.25 | 1608.95 |

Currency: USD
Consensus as of Apr-23-2018 5:10 PM GMT




- EPS NORMALIZED -

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ4 2017** | - | - | - |
| **FQ1 2018** | (0.02) | (0.05) | NM |

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# Call Participants

**EXECUTIVES**

**James G. Reynolds**
*Chief Financial Officer*

**Jim Mathias**

**Ronald Clark Cogburn**
*Chief Executive Officer*

**ANALYSTS**

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

**Brad Elliott**

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

# Presentation

**Operator**

Good afternoon, ladies and gentlemen, and welcome to the Exela Technologies First Quarter 2018 Call. My name is Austin. I'll be your host operator on this call. [Operator Instructions] Please note, today's event is being recorded. I would now like to turn the meeting over to Jim Mathias, Vice President, Investor Relations. Please go ahead.

**Jim Mathias**

Thanks, Austin. Good afternoon, and welcome to the Exela Technologies First Quarter 2018 Conference Call. Presenting on today's call are Ron Cogburn, our Chief Executive Officer; and Jim Reynolds, our Chief Financial Officer. Following prepared remarks made by Ron and Jim, we will take your questions.

Today's conference call is being broadcast live via webcast, which is available on our Exela Investor Relations website. A replay of this call will be available until May 17th, 2018. Information to access the replay is listed in today's press release, which is available on our website under the Investor section.

During today's call Exela will make forward-looking statements regarding future events and financial performance. These forward-looking statements are subject to known and unknown risks and uncertainties, and are based on current expectations and assumptions. We undertake no obligations to update any statements to reflect the events that occur after this call. Please refer to the company's filings with the SEC for factors that could cause our actual results to differ materially from any forward-looking statements. Our 10-K includes risk factors that could cause our actual results to differ materially from the forward-looking statements.

During the course of today's call, we'll refer to certain non-GAAP financial measures. Reconciliations between GAAP and non-GAAP results we discuss on this call can be found on our Investor Relations page of our website. As a reminder, financial results discussed on today's call reflect pro forma combined company results for the business combination of SourceHOV and Novitex, which closed on July 12, 2017. Please note, the results or presentation that accompanies this conference call and an investor fact sheet are also accessible in the IR section of our website.

We will begin by turning the call over to our CEO, Ron Cogburn.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Thanks, Jim. Good afternoon, and thanks, everyone, for joining us today. We're beginning to see the early signs of the benefits provided by the successful execution of our strategy of introducing business process automation to our customers, executing on cost savings, and investing for growth. Based on our strong first quarter results highlighted by pro forma revenue growth of 8.7% and pro forma adjusted EBITDA growth of 10.9%, we're increasing our outlook for both revenue and adjusted EBITDA.

Now I'd like to cover a few highlights for the quarter. Let's begin on Slide 5. Here's a little more detail around the results. First quarter results were highlighted by pro forma revenue growth of 8.7% year-over-year to $393 million. The segmentation of this revenue for the quarter included 79.3% for ITPS, 14.9% for healthcare solutions, and 5.8% for legal and loss prevention services. Profitability was also up 10.9% year-over-year, with pro forma adjusted EBITDA of $69.6 million.

Exela continues to enjoy low CapEx intensity, with only 2.2% of the revenue for Q1. We continue to be excited about the six large customers now generating more than $25 million in revenue with an eye on the top 197 that generate between $1 million and $5 million of annual revenue. This is where our organic growth will emerge. With approximately $1.5 billion in an annualized revenue stream over a broad base, our largest customer represents only 6% of our pro forma revenue. Customer numbers between two and 20 represent 27% of our pro forma revenue. The top 100 customers represent 58% of our pro forma revenue, which means we have lots of white space opportunity.

Now let's discuss the revenue generation by our team. As I've mentioned in previous quarters, our revenue per full-time employee, or FTE, has dramatically improved over the last 10 years. Growing from a BPO-type metric of $17,000 per FTE more than a decade ago to a BPA-type metric now at $69,000 per FTE. The revenue per FTE metric grew by 5% alone in the period between December 2017 and March 2018. All of this is a result of our automation platforms that we utilize every day, as well as our customers.

Now let's turn to Slide 6. The mission to extend Exela's global leadership position in business process automation continues. We have significant whitespace opportunity to harvest, and we're expanding our customer engagements. For example, we are opening Exela Innovation Centers in key business markets. At those centers, we can showcase our full suite of solutions and collaborate with customers to solve their problems and to launch new services. If you haven't experienced our Innovation Center, please reach out, and we can host a meeting with you and your group.

Early signs of our efforts are very positive, with over 24 pilots to date. Our work to share the breadth and depth of the Exela solutions with our customers continues, and we're investing in people and technology to further build customer awareness.

Our customer, our company, is on a journey to work with our customers to identify manual processes where, through the application of our proprietary software technology, we can provide automation. Through automating previously manual processes, workers become more efficient and productive. Our customers benefit from automation and digitization of information by gaining the ability to aggregate and make sense out of previously disparate pieces of data and to improve their decision-making capabilities. Ultimately, we believe this transformation will drive higher revenue and improved profitability for Exela.

We have a high degree of revenue visibility. On a trailing 12-month basis, total contract value one was $1.525 billion. The level of visibility gives us confidence in our ability to accurately forecast the trajectory of our business, going forward. We also have a high renewal rate on strategic accounts, over 95%, which is further proof of how effective we are at working to configure and implement meaningful and valuable solutions to our customers year-over-year.

Importantly, we continue on our path of growth. We aim to keep a broad customer base and generate revenue from a number of different customers. Our strategy to grow is focused on increasingly applying our solutions throughout our 3,500 customer base. Long sales cycles are a fact of our business, and that's why we are pleased to have over 24 pilot programs in place today. Only a year ago, we only had a handful of pilots.

As I mentioned last quarter, we have several opportunities in financial services, insurance, and healthcare that turned into these active pilots. Pilots, as you know, began as a proof-of-concept, then they move to a small program utilizing a fraction of the customer's volume, and then to full production. One such example was an initial pilot for a large insurance company with 3,800 of their agents, and after successful completion, we converted this to a full production rollout with their entire 14,000 agent network.

Our mobile deposit and payment processing app significantly reduced the effort, as well as the cost, and it also accelerated the insurer's journey towards digital transformation, and, most importantly, it enhanced the customer experience. In addition, just this last week, or just this week, our Zuma Liquidity Solutions platform was showcased as the opening act at Finovate, one of the largest FinTech conferences in the world. Zuma was created to address the growing need for a more intelligent, efficient, lending marketplace, which not only includes more asset classes than ever before, but also more potential financing sources willing to participate. You can check out the video next week of the conference and see our presentation.

Importantly, as a first mover in the BPA space, we're investing to increase the awareness of Exela and our solutions. We're committed to strategically making investments in people with sales, marketing, and strategy, as well as continuing to invest in our technologies. To this end, some of you on the call have been to our innovation centers in New York or in Los Angeles. We're in the process of opening up other innovation centers across the globe geographically located in the areas where our customers can conveniently access them. These centers are set up to demonstrate the breadth of our solutions to

current and prospective customers, while early the response from the customers has been overwhelmingly positive.

In addition to the investments in building customer awareness, we're also continuing to participate in industry trade groups and present at shows. We're excited to tell others about the journey we're on, ensuring stakeholders fully understand and appreciate how our business process automation solutions are different than what the traditional BPO industry has previously offered.

Now let's turn to Slide 7, Global Presence. We're approximately 22,000 employees strong at nearly 1,100 onsite client facilities and 150 delivery centers in over 50 countries, where we're conveniently close to our customers. Note that our largest concentration of employees is in North America, and we have about -- only 30 FTEs with H1B visas, and we have virtually no contractors. Important to note from this slide is that we have over 2,000 FTEs dedicated to the IT and technology that's required to support our BPA platforms worldwide.

Now let's turn to Slide 8, our distinguished customer base. We work with many of the largest companies in the respective industries that they serve, and our revenue comes from diverse end markets. The total addressable market for our solutions is large, and it's growing. We have over 3,500 customers, which include 60% of the Fortune 100, along with many of the largest retail chains, banks, law firms, healthcare insurance payers and providers, and of course, telecom companies. Over 50% of our revenue mix enjoys the tailwinds of the fastest-growing segments in that industry, and those are BFSI and healthcare. Exela does business with the top 10 U.S. banks, eight of the top 10 retailers, nine of the top 10 U.S. insurance companies, and the top five U.S. telecoms, along with the top five insurance payers.

Now let's turn to Slide 9. Our focus over the long-term through execution of our strategy is to drive shareholder value. We've highlighted four broad initiatives that I'll bring you up to date on. Let's start with BPA. The creation of Exela enabled and expanded business model and provided us with a first mover advantage in BPA. Customer response has been very positive. Growth within our largest customers is ahead of our consolidated revenue growth, and we have a number of pilot programs that I mentioned, 24 and counting, and we have a lot of interesting conversations with many of our largest customers, which should drive future growth.

Secondly, when Exela was formed last year, we found out a lot of customers simply didn't know our name, or they didn't completely understand the set of solutions we could provide them. Business process automation is a concept some of our customers are still becoming familiar with. To address that need, and to increase the level of overall awareness, we've opened a number of innovation centers, as I mentioned previously. There's two open to date, and we have two more under construction. Additionally, we've invested in people and technology and other profile-raising initiatives that we believe will help customers better appreciate our solutions.

Third, let's talk about cost savings, which is a big part of our story. During 2017, we delivered more than $40 million in cost-saving initiatives. Savings during 2017 included a lot of savings related to the business combination. Q1 2018, our achieved savings was $14.8 million. Our 2018 guidance includes $40 million to $45 million in savings, with the remainder being realized in 2019. Realization of savings in 2018 and beyond are increasingly related to COGS as we implement our technology in our customer engagements.

And fourth, accretive M&A. Asterion is a good example of a tuck-in acquisition that we like. Asterion used to be part of Novitex, and it's a business we feel we have a good knowledge of and a proven plan to transform the business unit. Essentially, we truly believe it was an extended execution of our strategy to integrate similar businesses and to increase the opportunities for both revenue and EBITDA transformation.

The acquisition comes with a minimal customer overlap, and is highly strategic to expand Exela's pro forma combined European business revenue to over $200 million. This acquisition will enable Asterion customers to access Exela's full suite of BPA solutions and also strategically position Exela to expand existing revenue base through a broader portfolio of offerings with a large European presence.

The transaction is anticipated to be accretive, slightly deleveraging in 2018. Important, though, is that we want to maintain our financial flexibility that enabled a strategic acquisition like this and opportunistic actions that ultimately help drive future growth and profitability.

We had a great start to the year, with 8.7% top line growth and adjusted EBITDA margins that increased year-over-year and sequentially. We've increased our full-year 2018 guidance for revenue and adjusted EBITDA. We're executing on a strategy to best position Exela for long-term sustainable growth, and to achieve a valuation that better represents the strengths of our business.

And now I would like to hand the call over to Jim Reynolds, who will discuss our financial results in greater detail. Jim?

**James G. Reynolds**
*Chief Financial Officer*

Thanks, Ron. Let's turn to Slide 11. Based on our pro forma revenue growth of 8.7% and adjusted EBITDA growth of 10.9%, we're increasing our 2018 annual guidance for both revenue and adjusted EBITDA. From a quarterly highlight perspective, in addition to higher revenue and adjusted EBITDA, we invested over $26.5 million in growth initiatives. We reported net loss improved by $34.4 million from the fourth quarter of 2017. At the end of the first quarter, our total liquidity was $117 million. And finally, Exela has $334 million in usable net operating loss carry-forwards available to offset pretax income.

Moving to Slide 12. From a P&L perspective, revenue for the first quarter were up 8.7% to $393.2 million compared with $361.9 million in Q1 of 2017, and up 1.8% from Q4 of 2017. On an accounting segment basis, information and transaction processing solutions, or what we call ITPS revenue, was $311.9 million and grew 11.6% year-over-year. This segment revenue also increased 3.5% sequentially. The year-over-year increase in ITPS was driven by increased volumes and expansion of services within existing customers, as well as new customers. We saw continued growth in our banking and financial services verticals, as well as our commercial, manufacturing, and technology markets.

Revenue in our healthcare solutions segment was $58.6 million compared with $59.1 million in Q1 of 2017, and in line with our expectations. This segment was down slightly from $60.1 million in the fourth quarter of 2017. The decline from Q4 was driven by lower volumes the company received during the quarter. This is common, as open enrollment volumes for insurance ends late in the fourth quarter.

Finally, in our third reporting segment, legal and loss prevention services, or Legal, our revenue was $22.6 million, down approximately 3.4% year-over-year compared with Q1 of 2017. We had a small noncore asset sale in March of 2017 that impacted the year-over-year comparison by $1.1 million. As a reminder, our revenue in our legal segment has a stable base, but is more event-driven, and therefore can fluctuate between quarters.

On the next page, 13, we reported operating income of $14.7 million, flat on a year-over-year basis. Our operating income was driven by revenue growth, slightly offset by higher costs of revenue, along with lower SG&A expenses as a result of our flow-through cost savings initiatives. We saw a 14% decrease in our SG&A expense year-over-year even after the investments in certain growth initiatives and higher public company costs.

Our operating income was also negatively impacted by a $7 million increase in our amortization expense during the quarter related to an accelerated expensing of our legacy trade names. This accelerated expense will continue over the next three quarters. Exela's net loss for the current quarter improved by $34.7 million over Q4 2017 to a net loss of $24 million. On a year-over-year basis, it improved by $1.4 million.

We are continuing down the path to transform our lower margin business, Exela Enterprise Solutions, which we acquired in July of 2017. We are making good progress, and we expect this transformation to take about 12 to 15 months.

On Slide 14, our EBITDA in Q1 2018 increased by $13.1 million year-over-year to $56.1 million. Our adjusted EBITDA for Q1 of 2018 was $69.6 million, representing a margin of 17.7% compared with $62.7

million and a margin of 17.3% from Q1 2017. Business optimization and restructuring expenses increased during the quarter as we continued to execute on our plan to deliver between $40 million to $45 million in savings flow-through in 2018.

Touching on cost savings. We realized nearly $14.8 million during the first quarter. As we complete our savings initiatives in 2018 and '19, we expect further adjusted EBITDA to converge with adjusted EBITDA during 2019.

Now turning to Slide 15. On a pro forma basis full-year 2017, we reported a further adjusted free cash flow conversion rate of 87.8%. Exela's strong free cash flow profile and conversion rate is due to our low CapEx operating model. In the first quarter of 2018, our CapEx was 2.2%, or $8.7 million of our revenue, and 90 basis points lower on a year-over-year basis. Exela also invested $26.5 million in business initiatives during Q1 and working capital related to revenue expansion and business optimization costs to drive our future savings.

Turning to the capital structure and other highlights on Slide 16. At March 31, 2018, total liquidity was $117 million and net debt was $1.366 billion. We had global cash of $37.3 million and an undrawn $100 million revolving credit facility, of which $20.6 million was blocked for standby letters of credit. Cash was down from December 31, 2017, as expected, due to interest payments of $66 million during the quarter, of which approximately $50 million related to the senior secured notes and its payable, as you remember, semi-annually every January and July.

Additionally, since we announced our stock buyback plan for our employee [ DSOP ] this last fall, we have purchased over 186,000 shares to date. A majority was done -- this purchase was done in April before the quiet period. Going forward, we will be opportunistic and continue to aggressively purchase shares, given our view that the company shares are undervalued.

On Slide 17, Other Items, effective January 1, 2018, like all companies, we adopted ASC 606, the new accounting standard for revenue recognition. The effect of the accounting change did not have a material impact on our financial position, and we recognized a $1.4 million cumulative effect on adoption as an increase to our beginning equity balance.

With respect to the Tax Reform Act, we will generate income on a tax basis as a result of certain limitations on interest expense deductions and increased U.S. tax from global intangible lower tax income on foreign income, or GILTI, which will be partially offset by 100% deduction of capital expenditures. Even though we will generate taxable income, Exela has over $334 million of usable NOLs that will fully offset our federal taxes. We currently do not anticipate paying any federal taxes until some time in 2021 or '22.

For this fiscal year, we estimate our cash taxes to be under $10 million, but payable for certain states and some foreign taxes for profitable international subsidiaries. We paid $1.1 million in cash taxes during the first quarter of 2018.

On Slide 18, we are raising our 2018 guidance, which we originally provided in March. We expect revenue to be between $1.55 billion to $1.58 billion, up from $1.51 billion to $1.54 billion on a constant-currency basis. We are also increasing the low-end guidance range of our adjusted EBITDA by $5 million. The new guidance range is $295 million to $310 million. We have no change to our further adjusted EBITDA, which we expect to be in the range of $330 million to $355 million, translating into a 22% to 23% margin.

In addition for 2018, our further adjusted free cash flow conversion in the range of 87% to 89%. Our guidance includes delivering $40 million to $45 million in savings during 2018, with the remaining in 2019.

Our long-term growth view on the business remains unchanged, revenue growth on a constant-currency basis in the range of 3% to 4%, and adjusted EBITDA margin in the range of 22% to 23%, and adjusted free cash flow conversion in the range of 87% to 89%.
Thank you. And with that, operator, I'd like to open up the call for questions.

# Question and Answer

**Operator**

[Operator Instructions] Joseph Foresi, Cantor Fitzgerald.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

I wanted to ask about obviously the raise in guidance on the top line. Maybe you can just talk about the drivers and what is giving you the confidence to raise that guidance. And are there any onetime projects that are taking off or you're starting to get a boost from in the numbers, and how does that flow through the year?

**James G. Reynolds**
*Chief Financial Officer*

Yes. Thanks for the question, Joe. If you think about our business and our contracts, they're long-term in nature, right? They're typically three to five years, and we have over 95% renewal rates. So we have good visibility into our revenue, typically just over 90% at any point in time. If you look at the numbers we delivered in the first quarter, we're very pleased with the results, and we continue to believe we're on the right trajectory. Ron talked about the large contract on the last call, which is starting to ramp up. So we feel really good from a top line perspective, and thought it made sense to increase the guidance, given that fact.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

Maybe you could give us a little color on your expectations by segment for 2018, just from a growth perspective. How should we think about that? I know that legal's got some projects to start and stop fairly quickly, but how do we think about that more on the segment level side?

**James G. Reynolds**
*Chief Financial Officer*

Given the overall growth percentages, we see a majority of it coming through our largest segment, our ITPS, right? We have over [ to ] 75% of our revenue in that segment. That's a big driver. That's where we're strong in industries with banking and financial services and insurance. And as those industries grow, we pick up incremental volumes. We move along with the market. Those markets, looking out, grow somewhere between 6% and 8%. With respect to the legal, we think that some were -- it's very steady, as we talk in baseball, a lot of singles and doubles, and we see that somewhere around the $90 million-ish, give or take. And then, within healthcare, typically we see a little bit of a dip because open enrollment, and people are using up their claim dollars in Q4. It starts to pick up throughout the year. So you will see growth in healthcare this year, but not to the extent as ITPS.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

You talked about the $45 million in savings. Maybe you could tell us a little bit more about that target. Is that something that you think you might be able to exceed this year? Are you comfortable with the current pace of the flow-through into the rest of the income statement? And what does that encompass particularly as far as the cost savings that you've been working on?

**James G. Reynolds**
*Chief Financial Officer*

Yes. We feel really good about the cost savings, and we're on track. If you think about the $40 million to $45 million, they're kind of broken up into our typical three buckets. Our headcount savings are between

$16 million and $18 million, about $19 million to $22 million in vendor savings, and then $4 million to $5 million in lease savings.

**Operator**

[Operator Instructions] Arun Seshadri, Credit Suisse.

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

Just a couple from me. First, I just wanted to understand, obviously nice revenue growth in the quarter, but it looked like gross profit actually declined. I just wanted to understand how that happened, whether there were any ramp-up costs, et cetera. And then also, what was the impact of postage in the numbers?

**James G. Reynolds**
*Chief Financial Officer*

So if you take a look, we don't really look at it on a gross margin basis because we have a lot of business optimization cost flowing through. We focus on an EBITDA perspective. It's a better measure at this point in time. We incurred $14.5 million in optimization, of which I would say somewhere about 75%, 80%, give or take, runs through cost of sales. So that's kind of the overall breakout. We were pleased with the SG&A decrease. We're going to continue to work on these cost savings, and as you can see, what we're looking at doing, we feel highly confident things we control with a majority within the headcount area. And then with respect to your comment on postage, we don't really break out postage separately. We follow U.S. GAAP revenue. We just adopted the 606, which drives the accounting for our revenue.

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

The other thing was there was a $7.5 million equity -- I don't know what. It shows up in your cash flow statements as cash paid for equity issue costs. What was that related to?

**James G. Reynolds**
*Chief Financial Officer*

That's a good point. This was basically fees we incurred one time related to the deal back in July. And then, finally, we paid $7.5 million of it. So we were able to get pretty favorable terms. So one time.

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

In terms of cost savings recognized already, is there any way you could give us how much of your full-year $40 million to $45 million of cost savings, how much of that was actually reflected in the numbers in Q1?

**James G. Reynolds**
*Chief Financial Officer*

About $14.8 million.

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

I'm sorry, so $14.8 million of the $40 million to $45 million was reflected--?

**James G. Reynolds**
*Chief Financial Officer*

Correct. Yes.

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

First quarter? Okay, got it.

**Operator**

Brad Elliott, RBC.

**Brad Elliott**

I just wanted to follow up in a similar vein to the last two questions on some of the cost-saving stuff. When you said that in '18 you're going to have $40 million to $45 million, and then the balance is going to be in 2019, can you just refresh what that balance is going to be given that in the OM, that when you did the deal last year, you had some cost savings and some that you weren't including in your full adjustments. Can you give us a refresh on what the '19 number would look like, or a range?

**James G. Reynolds**
*Chief Financial Officer*

What we have remaining is about $81 million or so in our further adjusted that we're working on. So I think that's in our fact sheet on our website. So if we get $40 million to $45 million now, you can do the math, and there's a remainder of roughly $40 million-ish for '19 to flow through.

**Brad Elliott**

And then, Jim, in your prepared remarks, you said that the full integration and the conversion was about 12 to 15 months. Is that from the deal closing in July, or is that kind of where you stand now?

**James G. Reynolds**
*Chief Financial Officer*

I would say from that perspective, it's from when the deal closed. We're working hard on the back half of this year, and there'll be incremental work to do into 2019. But if you remember, some of these we're dealing with large customers that we have to work with their IT departments, their CTOs when we start to move around some of the technology. So we're ready to move as quick as it makes sense with our customers. So those are the types of things, things like headcount, vendor saves, those move a lot quicker, obviously.

**Brad Elliott**

The last one on the incurred costs in the first quarter with the business optimization, that $26.5 million, do you expect more of that throughout the balance of the year, or is that just for those contracts that are starting up on the first quarter?

**James G. Reynolds**
*Chief Financial Officer*

I think you're talking about the investment we made.

**Brad Elliott**

Yes.

**James G. Reynolds**
*Chief Financial Officer*

Yes. I think that this company generates a lot of cash, and we're looking to drive those incremental savings. But, I think that's going to come down over the next few quarters as we move through the end of the year. That's the trajectory.

**Brad Elliott**

Any more thoughts on the acquisition front? Obviously the Asterion acquisition was a nice tuck-in. Are you looking more for other global opportunities at this point, or you kind of set with the integration at hand?

**James G. Reynolds**
*Chief Financial Officer*

So overall, we're pleased with this tuck-in. It's small. It makes a lot of sense. It's a simple integration to do. Looking out, we may look at some tuck-ins down the road, but think at this point we're pretty satisfied with things.

**Ronald Clark Cogburn**
*Chief Executive Officer*

We're focused on what we have.

**James G. Reynolds**
*Chief Financial Officer*

We're focusing on really de-levering to three times and driving top line growth.

**Brad Elliott**

That acquisition, was that something that they approached you, or how do you source those? Is that something that one of your sponsors was in touch with, as well?

**James G. Reynolds**
*Chief Financial Officer*

The reality of is these things come up every single day, right? They kind of knew about the Novitex deal. Obviously, we bought the U.S. piece. There was a short window for us to execute on, and it made a lot of sense. So that's typically how it works.

**Operator**

Joseph Foresi, Cantor Fitzgerald.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

I had just two final ones. Maybe you can help me with the cadence of revenue and margins through the back half of this year. Anything we should know from a seasonality perspective, and if you can talk about that steady pace of I guess you talked about $14 million. Is that what we should expect per quarter? And then, I had one other final question.

**James G. Reynolds**
*Chief Financial Officer*

The thing is, is we have over 3,500 customers with different mandates, different margins, et cetera. As we ramp up, we typically start with a lower margin, and they start to improve as we get to steady-state. I think part of the revenue growth during the quarter and sequentially was from ramping up a large customer. We see, as we move through the year, that our margins will expand. You can get to it through our guidance of adjusted EBITDA margins for an increase of 220 to 320 bps. And then, we have Novitex. And as we put in BPA, you're going to start to see that expansion.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Transformation.

**James G. Reynolds**
*Chief Financial Officer*

And the transformation.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

So it sounds like it's a gradual increase through the next couple quarters.

**James G. Reynolds**
*Chief Financial Officer*

That's correct.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

On the use of cash, any thoughts about -- obviously you did a small acquisition, but what's your primary objective for the use of cash? I assume it's to pay down debt. And could you be deleveraging quicker than expected if cash flow improves for you? I'm just trying to get a sense of what you'd be looking to use the cash for.

**James G. Reynolds**
*Chief Financial Officer*

I think it's a combination. I think [ if ] we look at it, deleveraging is very important to us. That's important. I think that we can be opportunistic with respect to the stock buyback. We haven't bought really back that many shares as of yet. And then, if there's a unique tuck-in acquisition, we'll look at those. But I think overriding, our debt is a little expensive, and we're going to look to de-lever it.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

Any chance of refinancing the debt?

**James G. Reynolds**
*Chief Financial Officer*

I think you would ask every -- I don't know if that's a fair. I mean, it's a good question.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

You [ wouldn't ] have any ideas.

**Operator**

Arun Seshadri, Credit Suisse.

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

Just wanted to get a sense for HS. How do you expect HS to progress through the balance of the year in terms of growth cadence? When do you expect that to return to growth?

**James G. Reynolds**
*Chief Financial Officer*

I think as we look out, we see it steadily increasing through the rest of this year. Back in previous quarters, we had the ICD-9 to -10 conversion, where it was really lumpy, and we had that kind of flow through the system through the end of Q4 of this year. So I don't see anything lumpy in the next few quarters.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Steady, yes.

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

As far as the optimization and restructuring expenses, we obviously saw that a little bit higher, like $14.5 million in Q1. In your full-year guidance, two things. One, what do you expect for full-year optimization and restructuring expenses?

**James G. Reynolds**
*Chief Financial Officer*

I think that obviously, with the acquisition of Asterion, we're going to have some more. I think we're working through that at this point in time. We just did the acquisition. We have some ideas, but haven't fully vetted them yet. So I think that'll be on a follow-up earnings call once we start to digest.

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

So you'll probably have that, but can you talk about that is the only additive thing [indiscernible] what you said before, was something around $25 million of optimization and restructuring?

**James G. Reynolds**
*Chief Financial Officer*

Yes. I think the original guidance before this was around $25 million.

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

In terms of GAAP EBITDA, I don't know if you could bridge for us against the good [improvement] in adjusted EBITDA guidance, which was good to see. Just wanted to get a sense for where do you think GAAP EBITDA ends up in a range for the year.

**James G. Reynolds**
*Chief Financial Officer*

We haven't given that guidance yet, but what I would say is it continues to transform and improve. If you look at where we were in Q3, we went from negative $21 million up to positive $56 million. Obviously, you know there was some impairment at that point in time. We're going to have some higher amortization this year related to the legacy trade names that we have to write off over a year, which we discussed on the Q4 call. So I think you'll see us, as the savings flow through from biz-op into the P&L up above, you'll start to see more GAAP as we move through the year.

**Operator**

And this will conclude our question-and-answer session. I would like to turn the conference back over to Ron Cogburn for any closing remarks.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Thanks, Austin. We really appreciate everybody participating in the call today. As you can tell, we're very pleased with the quarter. For those of you that have not had the pleasure of visiting us at one of our innovation centers, please reach out to myself, Jim Mathias, or Jim Reynolds, and we'd love to host you and your group there. I think it makes a lot of sense in understanding our technology and the power of the business process automation.

We look forward to speaking with everyone again next quarter. Thanks for participating.

**Operator**
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

# Exhibit 4

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2018**
**Or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to .**
**Commission file number: 001-36788**

# EXELA TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Delaware** | **47-1347291** |
| (State of or other Jurisdiction Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| **2701 E. Grauwyler Rd.** **Irving, TX** | **75061** |
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant's Telephone Number, Including Area Code: **(844) 935-2832**

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, Par Value $0.0001 per share | The Nasdaq Stock Market LLC |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large Accelerated Filer ☐ | Accelerated Filer ☒ |
| Non-Accelerated Filer ☐ | Smaller Reporting Company ☐ |
| | Emerging Growth Company ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of August 6, 2018, the registrant had 151,121,721 shares of Common Stock outstanding.

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**Exela Technologies, Inc.**
**Form 10-Q**
**For the quarterly period ended June 30, 2018**
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**PART I—FINANCIAL INFORMATION**

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Balance Sheets**
**As of June 30, 2018 and December 31, 2017**
*(in thousands of United States dollars except share and per share amounts)*

| | June 30, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 55,783 | $ 39,000 |
| Restricted cash | 31,088 | 42,489 |
| Accounts receivable, net of allowance for doubtful accounts of $4,488 and $3,725, respectively | 262,260 | 229,704 |
| Inventories, net | 15,088 | 11,922 |
| Prepaid expenses and other current assets | 24,108 | 24,596 |
| **Total current assets** | **388,327** | **347,711** |
| Property, plant and equipment, net | 135,585 | 132,908 |
| Goodwill | 748,708 | 747,325 |
| Intangible assets, net | 419,725 | 464,984 |
| Deferred income tax assets | 15,280 | 9,019 |
| Other noncurrent assets | 21,276 | 12,891 |
| Total assets | **$ 1,728,901** | **$ 1,714,838** |
| **Liabilities and Stockholders' Deficit** | | |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable | $ 86,304 | $ 81,263 |
| Related party payables | 11,987 | 14,445 |
| Income tax payable | 5,385 | 3,612 |
| Accrued liabilities | 40,737 | 49,383 |
| Accrued compensation and benefits | 50,905 | 46,925 |
| Accrued interest | 48,885 | 55,102 |
| Customer deposits | 36,997 | 31,656 |
| Deferred revenue | 20,654 | 12,709 |
| Obligation for claim payment | 94,233 | 42,489 |
| Current portion of capital lease obligations | 16,568 | 15,611 |
| Current portion of long-term debt | 16,299 | 20,565 |
| **Total current liabilities** | **428,954** | **373,760** |
| Long-term debt, net of current maturities | 1,281,697 | 1,276,094 |
| Capital lease obligations, net of current maturities | 25,193 | 25,958 |
| Pension liability | 30,471 | 25,496 |
| Deferred income tax liabilities | 5,016 | 5,362 |
| Long-term income tax liability | 3,470 | 3,470 |
| Other long-term liabilities | 16,208 | 14,704 |
| **Total liabilities** | **$ 1,791,009** | **$ 1,724,844** |
| Commitments and Contingencies (Note 9) | | |
| **Stockholders' deficit** | | |
| Common stock, par value of $0.0001 per share; 1,600,000,000 shares authorized; 152,565,218 shares issued and 151,747,225 outstanding at June 30, 2018 and 150,578,451 shares issued and 150,529,151 outstanding at December 31, 2017 | $ 15 | $ 15 |
| Preferred stock, par value of $0.0001 per share; 20,000,000 shares authorized; 4,569,233 shares issued and outstanding at June 30, 2018 and 6,194,233 shares issued and outstanding at December 31, 2017 | 1 | 1 |
| Additional paid in capital | 482,018 | 482,018 |
| Less:common stock held in treasury, at cost; 817,993 shares at June 30, 2018 and 49,300 shares at December 31, 2017 | (3,728) | (249) |
| Equity based compensation | 36,980 | 34,085 |
| Accumulated deficit | (565,222) | (514,628) |
| **Accumulated other comprehensive loss:** | | |
| Foreign currency translation adjustment | (1,341) | (194) |
| Unrealized pension actuarial losses, net of tax | (10,831) | (11,054) |
| Total accumulated other comprehensive loss | (12,172) | (11,248) |
| **Total stockholders' deficit** | **(62,108)** | **(10,006)** |
| **Total liabilities and stockholders' deficit** | **$ 1,728,901** | **$ 1,714,838** |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Operations**
**For the Three and Six Months ended June 30, 2018 and 2017**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Three Months ended June 30, 2018 | Three Months ended June 30, 2017 | Six Months ended June 30, 2018 | Six Months ended June 30, 2017 |
|---|---|---|---|---|
| Revenue | $ 410,382 | $ 209,382 | $ 803,549 | $ 427,642 |
| Cost of revenue (exclusive of depreciation and amortization) | 313,954 | 140,418 | 607,746 | 284,126 |
| Selling, general and administrative expenses | 46,723 | 34,998 | 92,318 | 70,578 |
| Depreciation and amortization | 36,368 | 21,406 | 74,386 | 42,727 |
| Related party expense | 1,402 | 2,456 | 2,508 | 4,841 |
| **Operating income** | 11,935 | 10,104 | 26,591 | 25,370 |
| **Other expense (income), net:** | | | | |
| Interest expense, net | 38,527 | 27,869 | 76,544 | 54,088 |
| Sundry expense (income), net | (2,325) | (327) | (2,389) | 2,397 |
| Other income, net | (704) | — | (4,032) | — |
| **Net loss before income taxes** | (23,563) | (17,438) | (43,532) | (31,115) |
| Income tax expense | (1,619) | (2,074) | (5,644) | (4,078) |
| **Net loss** | (25,182) | (19,512) | (49,176) | (35,193) |
| Cumulative dividends for Series A Preferred Stock | (914) | — | (1,828) | — |
| **Net loss attributable to common stockholders** | $ (26,096) | $ (19,512) | $ (51,004) | $ (35,193) |
| Net loss per share - basic and diluted | $ (0.17) | $ (0.28) | $ (0.34) | $ (0.50) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Comprehensive Loss**
**For the Three and Six Months ended June 30, 2018 and 2017**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Three Months ended June | | Six Months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net loss | $ (25,182) | $ (19,512) | $ (49,176) | $ (35,193) |
| **Other comprehensive income (loss), net of tax:** | | | | |
| Foreign currency translation adjustments | (879) | (1,391) | (1,147) | 1,023 |
| Unrealized pension actuarial gains (losses), net of tax | 626 | (683) | 223 | (964) |
| Comprehensive loss | $ (25,435) | $ (21,586) | $ (50,100) | $ (35,134) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Stockholders' Deficit**
**For the Six Months ended June 30, 2018 and 2017**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Common Stock | | Preferred Stock | | Treasury Stock | | Additional Paid-In | | Accumulated Other Comprehensive Income (Loss) | | | Total Stockholders' |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Capital | Equity-based Compensation | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | Accumulated Deficit | Deficit |
| Balances at December 31, 2016, effect of reverse acquisition (refer to Note 4) | 64,024,557 | $ — | — | $ — | — | $ — | $ (57,389) | $ 27,342 | $ (3,547) | $ (12,339) | $ (293,968) | $ (339,901) |
| Net loss January 1 to June 30, 2017 | | | | | | | | | | | (35,193) | (35,193) |
| Equity-based compensation | | | | | | | | 2,217 | | | | 2,217 |
| Foreign currency translation adjustment | | | | | | | | | 1,023 | | | 1,023 |
| Contribution from Shareholders | 5,697,032 | | | | | | 20,546 | | | | | 20,546 |
| Net realized pension actuarial gains, net of tax | | | | | | | | | | (964) | | (964) |
| Balances at June 30, 2017 | 69,721,589 | $ — | — | $ — | — | $ — | $ (36,843) | $ 29,559 | $ (2,524) | $ (13,303) | $ (329,161) | $ (352,272) |

| | Common Stock | | Preferred Stock | | Treasury Stock | | Additional Paid-In | | Accumulated Other Comprehensive Income (Loss) | | | Total Stockholders' |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Capital | Equity-based Compensation | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | Accumulated Deficit | Deficit |
| Balances at December 31, 2017 | 150,529,151 | $ 15 | 6,194,233 | $ 1 | 49,300 | $ (249) | $ 482,018 | $ 34,085 | $ (194) | $ (11,054) | $ (514,628) | $ (10,006) |
| Implementation of ASU 2014-09 (Note 2) | | | | | | | | | | | (1,418) | (1,418) |
| Net loss January 1 to June 30, 2018 | | | | | | | | | | | (49,176) | (49,176) |
| Equity-based compensation | | | | | | | | 2,895 | | | | 2,895 |
| Foreign currency translation adjustment | | | | | | | | | (1,147) | | | (1,147) |
| Net realized pension actuarial gains, net of tax | | | | | | | | | | 223 | | 223 |
| Preferred shares converted to common | 1,986,767 | | (1,625,000) | | | | | | | | | — |
| Shares Repurchased | (768,693) | | | | 768,693 | (3,479) | | | | | | (3,479) |
| Balances at June 30, 2018 | 151,747,225 | $ 15 | 4,569,233 | $ 1 | 817,993 | $ (3,728) | $ 482,018 | $ 36,980 | $ (1,341) | $ (10,831) | $ (565,222) | $ (62,108) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statement of Cash Flows**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Six Months ended June 30, 2018 | Six Months ended June 30, 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss | $ (49,176) | $ (35,193) |
| Adjustments to reconcile net loss | | |
| Depreciation and amortization | 74,386 | 42,727 |
| Debt discount and debt issuance cost amortization | 5,272 | 7,027 |
| Provision for doubtful accounts | 1,857 | 192 |
| Deferred income tax benefit | 705 | 617 |
| Share-based compensation expense | 2,895 | 2,217 |
| Foreign currency remeasurement | (1,156) | 972 |
| Loss on sale of assets | 1,340 | 26 |
| Fair value adjustment for interest rate swap | (4,675) | — |
| Change in operating assets and liabilities, net of effect from acquisitions | | |
| Accounts receivable | (19,813) | (49) |
| Prepaid expenses and other assets | (1,603) | (1,794) |
| Accounts payable and accrued liabilities | 40,677 | 24,543**(1)** |
| Related party payables | (2,458) | (8,025) |
| **Net cash provided by operating activities** | 48,251 | 33,260**(1)** |
| **Cash flows from investing activities** | | |
| Purchases of property, plant and equipment | (10,244) | (3,409) |
| Additions to internally developed software | (2,115) | (4,731) |
| Costs to obtain and fulfill a contract | (3,695) | (6,038) |
| Cash paid in acquisition net of cash - Asterion | (4,145) | — |
| Proceeds on sale of assets | 1,014 | 4,392 |
| **Net cash used in investing activities** | (19,185) | (9,786) |
| **Cash flows from financing activities** | | |
| Change in bank overdraft | — | (210) |
| Common share repurchases | (3,479) | |
| Proceeds from financing obligations | 2,152 | 3,008 |
| Contribution from shareholders | — | 20,546 |
| Cash paid for equity issue costs | (7,500) | — |
| Borrowings from revolver and swing-line loan | 30,000 | 72,600 |
| Repayments from revolver and swing line loan | (30,000) | (72,500) |
| Principal payments on long-term obligations | (14,447) | (28,153) |
| **Net cash used in financing activities** | (23,274) | (4,709) |
| Effect of exchange rates on cash | (410) | 240 |
| **Net increase in cash and cash equivalents** | 5,382 | 19,005**(1)** |
| Cash, restricted cash, and cash equivalents | | |
| Beginning of period | 81,489 | 34,253**(1)** |
| End of period | $ 86,871 | $ 53,258**(1)** |
| **Supplemental cash flow data:** | | |
| Income tax payments, net of refunds received | $ 3,864 | $ 2,032 |
| Interest paid | 76,353 | 32,566 |
| **Noncash investing and financing activities:** | | |
| Assets acquired through capital lease arrangements | 7,787 | 187 |
| Leasehold improvements funded by lessor | 1,540 | — |
| Accrued capital expenditures | 1,144 | 1,026 |

**(1)** Balances for these items differ from previously reported balances due to the adoption of ASU no. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Topic 230),* see Note 2.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Notes to the Condensed Consolidated Financial Statements**
*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*
(Unaudited)

**1. General**

These condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements as of and for the year ended December 31, 2017 included in the Exela Technologies, Inc. (the "Company," "Exela," "we," "our" or "us") annual report on Form 10-K for such period.

The accompanying condensed consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America ("GAAP") and with the instructions to Form 10-Q and Rule 10-01 of Securities and Exchange Commission ("SEC") Regulation S-X as they apply to interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. These accounting principles require us to use estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from our estimates.

The condensed consolidated financial statements are unaudited, but in our opinion include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim period. The interim financial results are not necessarily indicative of results that may be expected for any other interim period or the fiscal year.

**Net Loss per Share**

Earnings per share ("EPS") is computed by dividing net loss available to holders of the Company's Common Stock by the weighted average number of shares of Common Stock outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock, using the more dilutive of the two-class method or if-converted method in periods of earnings. The two-class method is an earnings allocation method that determines earnings per share for Common Stock and participating securities. As the Company experienced net losses for the periods presented, the impact of the Company's Series A Convertible Preferred Stock ("Series A Preferred Stock") was calculated based on the if-converted method. Diluted EPS excludes all dilutive potential of shares of Common Stock if their effect is anti-dilutive.

For the three and six months ended June 30, 2018, shares of the Series A Preferred Stock, if converted would have resulted in an additional 5,586,344 shares of Common Stock outstanding, but were not included in the computation of diluted loss per share as their effects were anti-dilutive.

The Company has not included the effect of 35,000,000 warrants sold in the Quinpario Initial Public Offering ("IPO") in the calculation of net income (loss) per share. Warrants are considered anti-dilutive and excluded when the exercise price exceeds the average market value of the Company's Common Stock price during the applicable period.

| | Three Months ended June 30, | | Six Months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net loss attributable to common stockholders (A) | $ (26,096) | $ (19,512) | $ (51,004) | $ (35,193) |
| Weighted average common shares outstanding - basic and diluted (B) | 152,259,589 | 69,721,589 | 152,186,473 | 69,721,589 |
| **Loss Per Share:** | | | | |
| Basic and diluted (A/B) | $ (0.17) | $ (0.28) | $ (0.34) | $ (0.50) |

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**2. Recently Adopted Accounting Pronouncements**

Effective January 1, 2018 the Company adopted Accounting Standards Update ("ASU") no. 2014-09, *Revenue from Contracts with Customers (ASC 606)*. Under ASU 2014-09, revenue is recognized based on a five-step model. The core principle of the model is that revenue will be recognized when the transfer of promised goods or services to customers is made in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted this standard using the modified retrospective approach applied to those contracts that were not completed as of January 1, 2018. The results for the reporting period beginning after January 1, 2018 are presented in accordance with the new standard, although historical information has not been restated and continues to be reported under the accounting standards and policies in effect for those periods. The adoption of ASC 606 did not have a material impact on the Company's financial position, results of operations and cash flows as of or for the period ended June 30, 2018, and we expect the impact of the adoption of the new standard will be immaterial to our results of operations on an ongoing basis. The cumulative effect of accounting change recognized was $1.4 million recorded as an increase to beginning balance of accumulated deficit, and a corresponding reduction to Accounts receivable, net. See Note 3 for additional disclosure.

Effective January 1, 2018, the Company adopted ASU no. 2016-15, *(Topic 230): Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments,* which adds or clarifies guidance on the presentation and classification of eight specific types of cash receipts and cash payments in the statement of cash flows such as debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees, with the intent of reducing diversity in practice. We applied the guidance retrospectively to all periods presented. Exela will reclassify a loss on extinguishment of debt from operating activities to financing activities in the third quarter of 2017 in the to be filed quarterly and annual statements ended September 30, 2018 and December 31, 2018, respectively. The adoption had no impact on the Company's financial position, results of operations and cash flows for the quarter ended June 30, 2018.

Effective January 1, 2018, the Company adopted ASU no. 2016-18, *(Topic 230): Restricted Cash*. *Statement of Cash Flows: Restricted Cash*. The ASU addresses diversity in practice that exists in the classification and presentation of changes in restricted cash and requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. We applied the guidance retrospectively to all periods presented. As a result of adopting the ASU no. 2016-18, restricted cash is included in the balances of restricted cash, cash and cash equivalents presented in the Statement of Cash Flows for the six months ended June 30, 2018 and 2017. Adopting the standard increased the net change in cash and cash equivalents, which is reflected within operating cash flows, by $3.4 million for the six months ended June 30, 2017. Total Cash and cash equivalents for the Beginning of period and End of period June 30, 2017 increased $25.9 million and $29.3 million due to the inclusion of restricted cash.

Effective January 1, 2018, the Company adopted ASU no. 2017-07, *(Topic 715): Compensation Retirement Benefit; Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments to this ASU require the service cost component of net periodic benefit cost be reported in the same income statement line or lines as other compensation costs for employees. The other components of net periodic benefit cost are required to be reported separately from service costs and outside a subtotal of income from operations. The new standard requires retrospective application and allows a practical expedient that permits an employer to use the amounts disclosed in its pension plan footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation. Adoption of the standard resulted in only the service cost being recorded to Cost of revenue; see Note 8 for the related impact.

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**Recently Issued Accounting Pronouncements**

In February 2016, the FASB issued ASU no. 2016-02, *Leases (842)*. This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Since the issuance of the original standard, the FASB has issued a subsequent update that provides a practical expedient for land easements (ASU 2018-01). The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years and early application is permitted. The Company has a significant amount of facilities and equipment leases and is currently evaluating the impact that adopting this standard will have on the consolidated financial statements.

In June 2016, the FASB issued ASU no. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* to replace the incurred loss impairment methodology under current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The standard will be effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260)*, *Distinguishing Liabilities from Equity* (Topic 480) *and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. Part I of this ASU addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this ASU addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815); Targeted Improvements to Accounting for Hedging Activities*. The amendments in this ASU better align the risk management activities and financial reporting for these hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

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**3. Significant Accounting Policies**

The information presented below supplements the Significant Accounting Policies information presented in our 2017 Form 10-K, including Revenue Recognition for the adoption of ASC 606, which became effective January 1, 2018. See our 2017 Form 10-K for a description of our significant accounting policies in effect prior to the adoption of the new accounting standard.

**Revenue Recognition**

We account for revenue in accordance with ASC 606. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. All of our material sources of revenue are derived from contracts with customers, primarily relating to the provision of business and transaction processing services within each of our segments. We do not have any significant extended payment terms, as payment is received shortly after goods are delivered or services are provided.

***Nature of Services***

Our primary performance obligations are to stand ready to provide various forms of business processing services, consisting of a series of distinct services that are substantially the same and have the same pattern of transfer over time, and accordingly are combined into a single performance obligation. Our promise to our customers is typically to perform an unknown or unspecified quantity of tasks and the consideration received is contingent upon the customers' use (i.e., number of transactions processed, requests fulfilled, etc.); as such, the total transaction price is variable. We allocate the variable fees to the single performance obligation charged to the distinct service period in which we have the contractual right to bill under the contract.

***Disaggregation of Revenues***

The following tables disaggregate revenue from contracts by geographic region and by segment for the three and six months ended June 30, 2018, and 2017:

| | Three months ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | ITPS | HS | LLPS | ITPS | HS | LLPS |
| United States | $ 264,864 | $ 56,314 | $ 23,936 | $ 97,574 | $ 58,065 | $ 21,576 |
| Europe | 58,357 | — | — | 31,130 | — | — |
| Other | 6,911 | — | — | 1,037 | — | — |
| Total | $ 330,132 | $ 56,314 | $ 23,936 | $ 129,741 | $ 58,065 | $ 21,576 |

| | Six months ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | ITPS | HS | LLPS | ITPS | HS | LLPS |
| United States | $ 534,815 | $ 114,946 | $ 46,535 | $ 203,920 | $ 117,143 | $ 44,961 |
| Europe | 93,640 | — | — | 59,431 | — | — |
| Other | 13,613 | — | — | 2,187 | — | — |
| Total | $ 642,068 | $ 114,946 | $ 46,535 | $ 265,538 | $ 117,143 | $ 44,961 |

***Contract Balances***

The following table presents contract assets and contract liabilities recognized at June 30, 2018 and December 31, 2017:

*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*

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| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Accounts receivable, net | $ 262,260 | $ 229,704 |
| Deferred revenues | 21,049 | 13,717 |
| Costs to obtain and fulfill a contract | 20,505 | 22,929 |
| Customer deposits | 36,997 | 31,656 |

Accounts receivable, net includes $39.4 million and $27.9 million as of June 30, 2018 and December 31, 2017, respectively, representing amounts not billed to customers. We have accrued the unbilled receivables for work performed in accordance with the terms of contracts with customers.

Deferred revenues relate to payments received in advance of performance under a contract. A significant portion of this balance relates to maintenance contracts or other service contracts where we received payments for upfront conversions or implementation activities which do not transfer a service to the customer but rather are used in fulfilling the related performance obligations that transfer over time. The advance consideration received from customers is deferred over the contract term. We recognized revenue of $10.4 million during the six months ended June 30, 2018 that had been deferred as of December 31, 2017.

Costs incurred to obtain and fulfill contracts are deferred and expensed on a straight-line basis over the estimated benefit period. We recognized $4.9 million of amortization for these costs in the first six months of 2018 within depreciation and amortization expense. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or transition activities and can be separated into two principal categories: contract commissions and transition/set-up costs. Examples of such capitalized costs include hourly labor and related fringe benefits and travel costs. Applying the practical expedient in ASC 340-40-25-4, we recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period would have been one year or less. These costs are included in Selling, general and administrative expenses. The effect of applying this practical expedient was not material.

Customer deposits consist primarily of amounts received from customers in advance for postage. The majority of the amounts recorded as of December 31, 2017 were used to pay for postage with the corresponding postage revenue being recognized during the six months ended June 30, 2018.

***Performance Obligations***

At the inception of each contract, we assess the goods and services promised in our contracts and identify each distinct performance obligation. The majority of our contracts have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts. For the majority of our business and transaction processing service contracts, revenues are recognized as services are provided based on an appropriate input or output method, typically based on the related labor or transactional volumes. Certain of our contracts have multiple performance obligations, including contracts that combine software implementation services with post-implementation customer support. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we estimate our expected costs of satisfying a performance obligation and add an appropriate margin for that distinct good or service. We also use the adjusted market approach whereby we estimate the price that customers in the market would be willing to pay. In assessing whether to allocate variable consideration to a specific part of the contract, we consider the nature of the variable

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payment and whether it relates specifically to its efforts to satisfy a specific part of the contract. Certain of our software implementation performance obligations are satisfied at a point in time, typically when customer acceptance is obtained.

When evaluating the transaction price, we analyze, on a contract-by-contract basis, all applicable variable consideration. The nature of our contracts give rise to variable consideration, including volume discounts, contract penalties, and other similar items that generally decrease the transaction price. We estimate these amounts based on the expected amount to be provided to customers and reduce revenues recognized. We do not anticipate significant changes to our estimates of variable consideration.

We include reimbursements from customers, such as postage costs, in revenue, while the related costs are included in cost of revenue.

***Transaction Price Allocated to the Remaining Performance Obligations***

In accordance with optional exemptions available under ASC 606, we did not disclose the value of unsatisfied performance obligations for (1) contracts with an original expected length of one year or less, and (2) contracts for which variable consideration relates entirely to an unsatisfied performance obligation, which comprise the majority of our contracts. We have certain non-cancellable contracts where we receive a fixed monthly fee in exchange for a series of distinct services that are substantially the same and have the same pattern of transfer over time, with the corresponding remaining performance obligations as of June 30, 2018 in each of the future periods below:

| | Estimated Remaining Fixed Consideration for Unsatisfied Performance Obligations |
|---|---|
| 2018 | $ 36,049 |
| 2019 | 57,945 |
| 2020 | 33,599 |
| 2021 | 15,406 |
| 2022 | 5,790 |
| 2023 and thereafter | 3,945 |
| Total | $ 152,734 |

**4. Business Combinations and Acquisitions**

**Novitex**

On July 12, 2017, the Company consummated its business combination with SourceHOV and Novitex Holdings, Inc. (“Novitex,” the “Novitex Business Combination”) pursuant to the Business Combination Agreement and Consent, Waiver and Amendment to the Novitex Business Combination Agreement, dated February 21, 2017 and June 15, 2017. In connection with the Novitex Business Combination, the Company acquired debt facilities and issued notes totaling $1.4 billion (refer to Note 6 — Long Term Debt and Credit Facilities). Proceeds from the acquired debt were used to refinance the existing debt of SourceHOV, settle the outstanding debt of Novitex, and pay fees and expenses incurred in connection with the Novitex Business Combination. Immediately following the Novitex Business Combination, there were 146,910,648 shares of common stock, 9,194,233 shares of Series A Preferred Stock, and 35,000,000 warrants outstanding.

Under ASC 805, *Business Combinations*, SourceHOV was deemed the accounting acquirer based on the following predominant factors: it has the largest portion of voting rights in the Company, the Board and Management has more individuals coming from SourceHOV than either Quinpario or Novitex,

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SourceHOV was the largest entity by revenue and by assets, and the headquarters was moved to the SourceHOV headquarters location. The Company acquired 100% of the equity of Novitex pursuant to the Business Combination Agreement by issuing 30,600,000 shares of common stock of Exela to Novitex Parent, L.P.; the sole stockholder of Novitex Holdings, Inc. Total value of equity for the transaction was $244.8 million. Additionally, as noted, the Company used proceeds from acquired debt to settle the outstanding debt of Novitex in the amount of $420.5 million, and pay transaction related costs and interest on behalf of Novitex in the amount of $10.3 million and $1.0 million, respectively, which was accounted for as part of consideration.

The following table summarizes the consideration paid for Novitex and the fair value of the assets acquired and liabilities assumed at the acquisition date on July 12, 2017:

| | | |
|---|---|---|
| **Assets acquired:** | | |
| Cash and equivalents | $ | 8,428 |
| Accounts receivable | | 87,474 |
| Inventory | | 1,245 |
| Prepaid expenses & other | | 13,974 |
| Property and equipment, net | | 60,657 |
| Identifiable intangible assets, net | | 251,060 |
| Deferred charges and other assets | | 2,723 |
| Other noncurrent assets | | 93 |
| Goodwill, excess/deficient purchase price | | 406,060 |
| Total identifiable assets acquired | **$** | **831,714** |
| **Liabilities Assumed:** | | |
| Accounts payable | $ | (29,444) |
| Short-term borrowings and current portion of long term debt | | (11,335) |
| Accrued liabilities | | (30,432) |
| Advanced billings and customer deposits | | (18,926) |
| Long term debt | | (15,704) |
| Deferred taxes | | (46,991) |
| Other liabilities | | (2,226) |
| Total liabilities assumed | **$** | **(155,058)** |
| Total Consideration | **$** | **676,656** |

The identifiable intangible assets include customer relationships, non-compete agreements, internally developed software, and trademarks and trade names. Customer relationships and non-compete agreements were valued using the Income Approach, specifically the Multi-Period Excess Earnings method. Trademarks and trade names were valued using the Income Approach, specifically the Relief-from-Royalty method. Internally developed software was valued based on costs incurred related to Connect Platform. All of these intangibles acquired represent a Level 3 measurement as they are based on unobservable inputs reflecting Management's own assumptions about the inputs used in pricing the asset or liability at fair value.

*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*

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| | Weighted Average Useful Life (in years) | Fair Value |
|---|---|---|
| Trademark and trade name - Novitex | 9.5 | $ 18,000 |
| Customer relationships | 16.0 | 230,000 |
| Inernally developed software - Connect Platform | 5.0 | 1,710 |
| Non-compete agreements | 1.0 | 1,350 |
| | | $ 251,060 |

As of the date of the Novitex Business Combination, the weighted-average useful life of total identifiable intangible assets acquired in the Novitex Business Combination, excluding goodwill, was 15.4 years.

Through the acquisition of SourceHOV and Novitex, we continue to pursue revenue synergies, leverage brand awareness, generate greater free cash flow, expand the existing Novitex sales channels, and increase utilization of the existing workforce. The Company also anticipates continued opportunity for growth through the ability to leverage additional future services and capabilities. Our anticipation of synergies and leveraging existing brand awareness, among other factors, contributed to a purchase price in excess of the estimated fair value of Novitex's identifiable net assets assumed, and as a result, the Company has recorded goodwill in connection with this acquisition. Approximately $14.0 million of the goodwill recorded was tax deductible, which was carried over from the tax basis of the seller. Since the acquisition date of July 12, 2017, $134.4 million of revenue and $5.0 million of net loss were included in our consolidated revenues and net loss, respectively, for Novitex for the year ended December 31, 2017. These results are included in the ITPS segment.

*Transaction Costs*

The Company incurred approximately $60.0 million in advisory, legal, accounting and management fees in conjunction with the Novitex Business Combination as of December 31, 2017, excluding contract cancellation and advising fees to HGM of $23.0 million. Additionally, $7.6 million was incurred related to equity issuance costs and $40.9 million was incurred in debt issuance costs. No transaction costs were incurred in the six months ended June 30, 2018 and $8.4 million were incurred during the six months ended June 30, 2017.

*Restructuring Charges*

In February 2017, Management performed a strategic review of human resources at Novitex for the purpose of assessing the business need for their employment and for the purpose of quantifying the synergies resulting from the acquisition. As a result, in June 2017, representatives of SourceHOV and HGM Group communicated the termination of certain executives and non-executive Novitex employees. There were no restructuring charges incurred in the six months ended June 30, 2018 and 2017.

The Company determined that costs associated with termination benefits should be accounted for separately from the acquisition, as a post combination expense of the combined entity because the expense was incurred for the benefit of the combined entity. In connection with the closing of the Novitex Business Combination in the third quarter of 2017 the Company recorded severance expense in the amount of $4.6 million related to the impacted executives and $0.1 million related to other terminations in the statement of operations. No severance expense was incurred or recognized for the six months ended June 30, 2018 and 2017.

**Asterion**

On April 10, 2018, Exela completed the acquisition of Asterion International Group ("Asterion," the "Asterion Business Combination"), a well-established provider of technology driven business process outsourcing, document management and business process automation across Europe. The purchase

*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*

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price was approximately $19.5 million. The acquisition comes with minimal customer overlap and is strategic to expand Exela's European business. The acquired assets and assumed liabilities of Asterion were recorded at their estimated fair values. The purchase price allocation for Asterion is preliminary for estimates for items such as income taxes and subject to change within the respective measurement period, which will not extend beyond one year from the acquisition date. Measurement period adjustments will be recognized in the reporting period in which the adjustment amounts are determined.

The following table summarizes the consideration paid for Asterion and the preliminary fair value of the assets acquired and liabilities assumed at the acquisition date on April 10, 2018:

| | | |
|---|---|---|
| **Assets Acquired:** | | |
| Cash and cash equivalents | $ | 15,323 |
| Accounts receivable | | 18,123 |
| Other current assets | | 2,282 |
| Inventories, net | | 1,137 |
| Property, plant, and equipment, net | | 4,747 |
| Deferred income tax assets | | 6,317 |
| Other noncurrent assets | | 522 |
| Intangible assets, net | | 3,525 |
| Goodwill | | 1,493 |
| Total identifiable assets acquired | $ | 53,469 |
| **Liabilities Assumed:** | | |
| Accounts payable | $ | (6,583) |
| Income tax payable | | (5) |
| Accrued liabilities | | (7,718) |
| Accrued compensation and benefits | | (7,079) |
| Deferred revenue | | (880) |
| Current portion of long term debt | | (664) |
| Current capital lease obligations | | (331) |
| Customer deposits | | (462) |
| Pension liability | | (7,134) |
| Other long-term liabilities | | (1,324) |
| Deferred income tax liabilities | | (1,171) |
| Capital lease obligations, net of current maturities | | (650) |
| Total liabilities assumed | $ | (34,001) |
| Total Consideration | $ | 19,468 |

The majority of identifiable intangible assets consisted of customer relationships. Customer relationships were valued using the Income Approach, specifically the Multi-Period Excess Earnings method. This intangible acquired represents a Level 3 measurement as it is based on unobservable inputs reflecting Management's own assumptions about the inputs used in pricing the asset at fair value.

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| | Weighed Average Useful Life (in years) | Fair Value |
|---|---|---|
| Customer Relationships | 9.5 | $ 3,516 |

Through the acquisition of Asterion, we expect to leverage brand awareness, strengthen margins, and expand the existing Asterion sales channels. These factors, among others, contributed to a purchase price in excess of the estimated fair value of Asterion's identifiable net assets assumed, and as a result, the Company has recorded goodwill in connection with this acquisition. Since the date of acquisition, April 10, 2018, Exela has recognized $20.9 million in revenue related to Asterion in the Consolidated Statement of Operations. The impact of Asterion on net loss for the three and six months ended June 30, 2018 was not material.

**5. Intangibles Assets and Goodwill**

**Intangibles**

Intangible assets are stated at cost or acquisition-date fair value less accumulated amortization and consists of the following:

| | June 30, 2018 | | |
|---|---|---|---|
| | Gross Carrying Amount (a) | Accumulated Amortization | Intangible Assets, Net |
| Customer relationships | $ 507,972 | $ (163,269) | $ 344,703 |
| Developed technology | 89,053 | (83,765) | 5,288 |
| Trade names | 13,100 | (1,550) | 11,550 |
| Costs to obtain and fulfill a contract | 42,745 | (22,241) | 20,504 |
| Internally developed software | 31,594 | (4,929) | 26,665 |
| Trademarks | 23,379 | (12,408) | 10,971 |
| Non compete agreements | 1,350 | (1,306) | 44 |
| Intangibles, net | $ 709,193 | $ (289,468) | $ 419,725 |

| | December 31, 2017 | | |
|---|---|---|---|
| | Gross Carrying Amount (a) | Accumulated Amortization | Intangible Assets, Net |
| Customer relationships | $ 504,643 | $ (135,962) | $ 368,681 |
| Developed technology | 89,076 | (77,103) | 11,973 |
| Trade names (b) | 13,100 | — | 13,100 |
| Costs to obtain and fulfill a contract | 40,456 | (17,526) | 22,930 |
| Internally developed software | 28,254 | (2,597) | 25,657 |
| Trademarks | 23,370 | (1,446) | 21,924 |
| Non compete agreements | 1,350 | (631) | 719 |
| Intangibles, net | $ 700,249 | $ (235,265) | $ 464,984 |

(a) Amounts include intangible assets acquired in business combinations
(b) The carrying amount of trade names is net of accumulated impairment losses of $39.3 million recognized in 2017.

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**Exela Technologies, Inc. and Subsidiaries**
**Notes to the Condensed Consolidated Financial Statements**
*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*
(Unaudited)

**Goodwill**

Goodwill by reporting segment consists of the following:

| | Goodwill | Additions | Reductions | Currency translation adjustments | Goodwill (a) |
|---|---|---|---|---|---|
| ITPS | $ 159,394 | $ 406,522**(b)** | — | $ 299 | $ 566,215 |
| HC | 86,786 | — | — | — | 86,786 |
| LLPS | 127,111 | — | (32,787)**(c)** | — | 94,324 |
| Balance as of December 31, 2017 | $ 373,291 | $ 406,522 | $ (32,787) | $ 299 | $ 747,325 |
| ITPS | 566,215 | $ 1,493**(d)** | | $ (110) | 567,598 |
| HC | 86,786 | | | | 86,786 |
| LLPS | 94,324 | | | | 94,324 |
| Balance as of June 30, 2018 | $ 747,325 | $ 1,493 | $ — | $ (110) | $ 748,708 |

(a) The goodwill amount for all periods presented is net of accumulated impairment losses of $137.9 million.
(b) Addition to goodwill is due to the Novitex Business Combination. Refer to Note 4.
(c) The reduction in goodwill is due to $30.1 million for impairment recorded in the fourth quarter of 2017 and $2.7 million for the sale of Meridian Consulting Group, LLC in the first quarter of 2017.
(d) Addition to goodwill due to the Asterion Business Combination. Refer to Note 4.

**6. Long-Term Debt and Credit Facilities**

**Senior Secured Notes**

On July 12, 2017, the Company issued $1.0 billion in aggregate principal amount of 10.0% First Priority Senior Secured Notes due 2023 with an original issue discount (“OID”) of $22.5 million (the “Notes”). The Notes are guaranteed by certain subsidiaries of the Company. The Notes bear interest at a rate of 10.0% per year. The Company pays interest on the Notes on January 15 and July 15 of each year, commencing on January 15, 2018. The Notes will mature on July 15, 2023.

**Debt Refinancing**

Upon the closing of the Novitex Business Combination on July 12, 2017, the $1,050.7 million outstanding balance of SourceHOV related debt facilities and the $420.5 million outstanding balance of Novitex debt facilities were paid off using proceeds from the Credit Agreement and issuance of the Notes.

In accordance with ASC 470 — *Debt — Modifications and Extinguishments,* as a result of certain lenders that participated in SourceHOV’s debt structure prior to the refinancing and the Company’s debt structure after the refinancing, it was determined that a portion of the refinancing of SourceHOV’s First lien secured term loan and Second lien secured term loan (“Original Term Loans”) would be accounted for as a debt modification, and the remaining would be accounted for as an extinguishment. The Company incurred $28.9 million in debt issuance costs related to the new secured term loan, of which $2.8 million was third party costs. The Company expensed $1.1 million of costs related to the modified debt and capitalized the remaining $27.8 million in the third quarter of 2017. The Company wrote off $30.5 million of the unamortized issuance costs and discounts associated with the retirement of SourceHOV’s credit facilities during the third quarter of 2017. The Company has approximately $3.3 million and $3.5 million of remaining unamortized debt issuance costs and debt discounts, respectively, associated with the modified portion of the Original Term Loans that will be amortized over the term of the new term loan, which are presented on the balance sheet as a contra-debt liability. The Company incurred a $5.0 million prepayment penalty related the Company’s Original Term Loans that was recorded as a loss on extinguishment of debt in the third quarter of 2017.

The proceeds of the new debt financing were also used to pay fees and expenses incurred in connection with the Novitex Business Combination and for general corporate purposes.

*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*

**Senior Credit Facilities**

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the "Credit Agreement") providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, a (i) $350.0 million senior secured term loan maturing July 12, 2023 with an OID of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022, none of which is currently drawn. As of June 30, 2018 and December 31, 2017, the Company had outstanding irrevocable letters of credit totaling approximately $20.7 million and $20.9 million, respectively, under the senior secured revolving facility.

The Credit Agreement provides for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company's option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity.

**Long-Term Debt Outstanding**

As of June 30, 2018 and December 31, 2017, the following long-term debt instruments were outstanding:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Other (a) | $ 18,270 | $ 17,534 |
| First lien credit agreement (b) | 307,428 | 308,825 |
| Senior secured notes (c) | 972,298 | 970,300 |
| Total debt | 1,297,996 | 1,296,659 |
| Less: Current portion of long-term debt | (16,299) | (20,565) |
| Long-term debt, net of current maturities | $ 1,281,697 | $ 1,276,094 |

(a) Other debt represents the Company's outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company.

(b) Net of unamortized original issue discount and debt issuance costs of $9.1 million and $26.9 million as of June 30, 2018 and $9.9 million and $29.1 million as of December 31, 2017.

(c) Net of unamortized debt discount and debt issuance costs of $19.8 million and $7.9 million as of June 30, 2018 and $21.2 million and $8.5 million as of December 31, 2017.

**Subsequent Event- Term Loan Repricing**

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the "Repricing"). The Repricing was accomplished pursuant to a First Amendment to First Lien Credit Agreement (the "First Amendment"), dated as of July 13, 2018, by and among Exela Intermediate Holdings LLC, the Company, each "Subsidiary Loan Party" listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto, whereby the Company borrowed $343.4 million of refinancing term loans (the "Repricing Term Loans") to refinance the Company's existing senior secured term loans.

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The Repricing Term Loans will bear interest at a rate per annum of, at the Company's option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin of 6.50% for LIBOR loans and 5.50% for base rate loans. The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement, by and among Exela Intermediate Holdings, LLC, the Company, Royal Bank of Canada, as administrative agent and collateral agent, and each of the lenders party thereto. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

**Subsequent Event- Incremental Term Loan**

On July 13, 2018, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the "Incremental Term Loans") under the First Amendment. The proceeds of the Incremental Term Loans may be used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment. The interest rates applicable to the Incremental Term Loans are the same as those for the Repricing Term Loans.

The Company may voluntarily repay the Repricing Term Loans and the Incremental Term Loans (collectively, the "Term Loans") at any time, without prepayment premium or penalty, except in connection with a repricing event as described in the following sentence, subject to customary "breakage" costs with respect to LIBOR rate loans. Any refinancing of the Term Loans through the issuance of certain debt or any repricing amendment, in either case, that constitutes a "repricing event" applicable to the Term Loans resulting in a lower yield occurring at any time during the first six months after July 13, 2018 will be accompanied by a 1.00% prepayment premium or fee, as applicable.

Other than as described above, the terms, conditions and covenants applicable to the Repricing Term Loans and the Incremental Term Loans are consistent with the terms, conditions and covenants that were applicable to the Existing Term Loans under the First Lien Credit. The Repricing and issuance of the Incremental Term Loans resulted in a partial debt extinguishment, for which Exela expects to recognize approximately $1.1 million in debt extinguishment costs in the third quarter of 2018.

**7. Income Taxes**

The Company applies an estimated annual effective tax rate ("ETR") approach for calculating a tax provision for interim periods, as required under U.S. GAAP. The Company recorded an income tax expense of million $1.6 million and $2.1 million for the three months ended June 30, 2018 and 2017, respectively. The Company recorded an income tax expense of $5.6 million and $4.1 million for the six months ended June 30, 2018 and 2017, respectively.

The Company's ETR of (6.9%) and (13.0%) for the three months and six months ended June 30, 2018, respectively, differed from the expected U.S. statutory tax rate of 21.0% and was primarily impacted by permanent tax adjustments, state and local current expense, foreign operations, and valuation allowances, including valuation allowances on a portion of the Company's U.S. disallowed interest expense carryforward's created by the provisions of The Tax Cuts and Jobs Act ("TCJA").

The Company's ETR of (11.9%) and (13.1%) for the three months and six months ended June 30, 2017, respectively, differed from the U.S. statutory tax rate of 35.0%, and was primarily impacted by permanent tax adjustments, Meridian goodwill impairment, foreign operations, Indian prior year tax expense true-up,

and a valuation allowance against certain domestic deferred tax assets that are not more-likely-than-not to be realized.

The TCJA subjects a US shareholder to tax on global intangible low-taxed income (GILTI) earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for GILTI, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. Given the complexity of the GILTI provisions, we are still evaluating the effects of the GILTI provisions and have not yet determined our accounting policy. At June 30, 2018, because we are still evaluating the GILTI provisions and our analysis of future taxable income that is subject to GILTI, we have included GILTI related to current-year operations only in our annual effective ETR and have not provided additional GILTI on deferred items.

As of June 30, 2018, there were no material changes to either the nature or the amounts of the uncertain tax positions previously determined for the year ended December 31, 2017. The Company's valuation allowances have increased by approximately $10.5 million from December 31, 2017 to June 30, 2018 due to effects of TCJA relating to interest expense.

**8. Employee Benefit Plans**

**German Pension Plan**

The Company's subsidiary in Germany provides pension benefits to certain retirees. Employees eligible for participation include all employees who started working for the Company prior to September 30, 1987 and have finished a qualifying period of at least 10 years. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan. The German pension plan is an unfunded plan and therefore has no plan assets.

**U.K. Pension Plan**

The Company's subsidiary in the United Kingdom provides pension benefits to certain retirees and eligible dependents. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to October 2001. A retirement pension or a lump-sum payment may be paid dependent upon length of service at the mandatory retirement age. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

**Tax Effect on Accumulated Other Comprehensive Loss**

As of June 30, 2018 and December 31, 2017, the Company recorded actuarial losses of $10.8 million and $11.1 million in accumulated other comprehensive loss on the condensed consolidated balance sheets, respectively, which is net of a deferred tax benefit of $2.0 million and $2.0 million, respectively.

*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*

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**Pension Expense**

The components of the net periodic benefit cost are as follows:

| | Three Months ended June 30, | | Six Months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Service cost | $ 158 | $ 2 | $ 160 | $ 4 |
| Interest cost | 638 | 571 | 1,149 | 1,124 |
| Expected return on plan assets | (804) | (595) | (1,429) | (1,172) |
| **Amortization:** | | | | |
| Amortization of prior service cost | (31) | (33) | (63) | (65) |
| Amortization of net (gain) loss | 403 | 516 | 807 | 1,016 |
| **Net periodic benefit cost** | $ 364 | $ 461 | $ 624 | $ 907 |

Upon adopting ASU no. 2017-07 as described in Note 2, the Company now records pension interest cost within Interest expense, net. Expected return on plan assets, amortization of prior service costs, and amortization of net losses are recorded within Other income, net. Service cost is recorded within Cost of revenue.

**Employer Contributions**

The Company's funding of employer contributions is based on governmental requirements and differs from those methods used to recognize pension expense. The Company made contributions of $1.2 million and $0.8 million to its pension plans during the six months ended June 30, 2018 and 2017, respectively. The Company has funded the pension plans with the required contributions for 2018 based on current plan provisions.

**9. Commitments and Contingencies**

**Appraisal Demand**

On September 21, 2017, stockholders of our wholly-owned subsidiary SourceHOV, who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the Novitex Business Combination Transaction, which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their shares at the time of the Novitex Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses. On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). Trial is currently scheduled for June 2019. At this early stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate any loss or range of loss that may arise from the Appraisal Action.

**10. Fair Value Measurement**

**Assets and Liabilities Measured at Fair Value**

The carrying amount of assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable approximated their fair value as of June 30, 2018 and December 31, 2017 due to the relative short maturity of these instruments. Management estimates the fair values of the secured term loan and secured notes at approximately 100.3% and 102.5% respectively, of the respective principal balance outstanding as of June 30, 2018. The carrying value approximates the fair value for the long-term debt. Other debt represents the Company's outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company and as such, the cost incurred would approximate fair value. Property and equipment, intangible assets, capital lease obligations, and goodwill are not required to be re-measured to fair value on a recurring basis. These assets are evaluated for impairment if certain triggering events occur. If such evaluation indicates that impairment exists, the respective asset is written down to its fair value.

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The Company determined the fair value of its long-term debt using Level 2 inputs including the recent issue of the debt, the Company's credit rating, and the current risk-free rate. The Company's contingent liabilities related to prior acquisitions are re-measured each period and represent a Level 2 measurement as it is based on using an earn out method based on the agreement terms.

The following table provides the carrying amounts and estimated fair values of the Company's financial instruments as of June 30, 2018 and December 31, 2017:

| As of June 30, 2018 | Carrying Amount | Fair Value | Fair Value measurements Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| Recurring and nonrecurring assets and liabilities: | | | | | |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |
| Long-term debt | 1,281,697 | 1,371,268 | | 1,371,268 | |
| Interest rate swap asset | 5,972 | 5,972 | — | 5,972 | |

| As of December 31, 2017 | Carrying Amount | Fair Value | Fair Value measurements Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| Recurring and nonrecurring assets and liabilities: | | | | | |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |
| Long-term debt | 1,276,094 | 1,308,478 | | 1,308,478 | |
| Interest rate swap asset | 1,297 | 1,297 | — | 1,297 | |

The significant unobservable inputs used in the fair value of the Company's acquisition contingent liability are the discount rate, growth assumptions, and revenue thresholds. Significant increases (decreases) in the discount rate would have resulted in a lower (higher) fair value measurement. Significant increases (decreases) in the forecasted financial information would have resulted in a higher (lower) fair value measurement. For all significant unobservable inputs used in the fair value measurement of the Level 3 liabilities, a change in one of the inputs would not necessarily result in a directionally similar change in the other based on the current level of billings.

The following table reconciles the beginning and ending balances of net assets and liabilities classified as Level 3 for which a reconciliation is required:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| Balance as of Beginning of Period | $ 721 | $ 721 |
| Payments/Reductions | — | — |
| Balance as of End of Period | $ 721 | $ 721 |

**11. Stock-Based Compensation**

At Closing, SourceHOV had 24,535 restricted stock units ("RSUs") outstanding under its 2013 Long Term Incentive Plan ("2013 Plan"). Simultaneous with the closing of the Novitex Business Combination, the 2013 Plan, as well as all vested and unvested RSUs under the 2013 Plan were assumed by Ex-Sigma, LLC ("ExSigma"), an entity formed by the former SourceHOV equity holders, which is also the Company's principal stockholder. In accordance with U.S. GAAP, the Company continues to incur compensation expense related to the 9,880 unvested RSUs as of July 12, 2017 on a straight-line basis until fully vested, as the recipients of the RSUs are employees of the Company. Subject to continuous employment and other terms of the 2013 Plan, all remaining unvested RSUs with an initial vesting period of 3 or 4 years will vest in April 2019. As of June 30, 2018 there are 2,700 nonvested shares related to the 2013 Plan

*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*

with a weighted average remaining contractual life of .83 years and a weighted average aggregate intrinsic value per share of $1,633.

**Exela 2018 Stock Incentive Plan**

On January 17, 2018, Exela's 2018 Stock Incentive Plan (the "2018 Plan") became effective. The 2018 Plan provides for the grant of incentive and nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, performance awards, and other stock-based compensation to eligible participants. Under the 2018 Plan, stock options are granted at a price per share not less than 100% of the fair market value per share of the underlying stock at the grant date. The vesting period for each option award is established on the grant date, and the options generally expire 10 years from the grant date. The Company is authorized to issue up to 8,323,764 shares of Common Stock.

**Restricted Stock Unit Grants**

As part of the 2018 Plan, Exela issued Restricted Stock Units ("RSUs") to directors on April 2, 2018. The RSUs are subject to all of the terms and conditions of the 2018 Plan. Exela issued 207,020 units with a grant date fair value of $1.1 million. On June 6, 2018, 126,923 of the RSUs vested immediately prior to the 2018 annual meeting of the stockholders of the Company. Provided that the award holder has not undergone a termination prior to the applicable vesting date, for the remaining 80,097 of the RSUs issued, half shall vest immediately prior to both the 2019 annual meeting of the stockholders of the Company and the 2020 annual meeting of the stockholders of the Company.

A summary of the status of restricted stock units related to the 2018 Plan as of June 30, 2018 is presented as follows:

| | Number of Shares | Remaining Contractual Life (Years) | Aggregate Intrinsic Value ($) |
|---|---|---|---|
| Shares granted | 207,020 | | |
| Shares forfeited | — | | |
| Shares vested | (126,923) | | |
| Nonvested at June 30, 2018 | 80,097 | 1.42 | $ 433 |

As of June 30, 2018, there was approximately $4.2 million of total unrecognized compensation expense related to restricted stock for the 2013 Plan and 2018 Plan, which will be recognized over the respective service period.

Stock-based compensation expense is recorded within Selling, general, and administrative expenses. The Company incurred total compensation expense of $1.9 million and $2.9 million related to the 2013 Plan and 2018 Plan awards for the three and six months ended June 30, 2018.

**12. Stockholders' Equity**

The following description summarizes the material terms and provisions of the securities that the Company has authorized.

**Common Stock**

The Company is authorized to issue 1,600,000,000 shares of common stock, par value $0.0001 per share. At June 30, 2018 the Company had 151,747,225 shares of common stock outstanding. Except as otherwise required by law or as otherwise provided in any certificate of designation for any series of

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preferred stock, the holders of Exela Common Stock possess all voting power for the election of Exela's directors and all other matters requiring stockholder action and will at all times vote together as one class on all matters submitted to a vote of Exela stockholders. Holders of Exela Common Stock are entitled to one vote per share on matters to be voted on by stockholders. Holders of Exela Common Stock will be entitled to receive such dividends and other distributions, if any, as may be declared from time to time by the board of directors in its discretion out of funds legally available therefor and shall share equally on a per share basis in such dividends and distributions. The holders of the common stock have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the common stock.

**Preferred Stock**

The Company is authorized to issue 20,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors. At June 30, 2018, the Company had 4,569,233 shares of Series A Preferred Stock outstanding. The par value of Series A Preferred Stock is $0.0001 per share. Each share of Series A Convertible Preferred Stock will be convertible at the holder's option, at any time after the six-month anniversary and prior to the third anniversary of the issue date, initially into 1.2226 shares of Exela Common Stock.

Holders of the Series A Preferred Stock will be entitled to receive cumulative dividends at a rate per annum of 10% of the Liquidation Preference per share of Series A Preferred Stock, paid or accrued quarterly in arrears. From the issue date until the third anniversary of the issue date, the amount of all accrued but unpaid dividends on the Series A Preferred Stock will be added to the Liquidation Preference without any action by the Company's board of directors. For the three and six months ended June 30, 2018 this amount was $0.9 million and $1.8 million, respectively, as reflected on the Consolidated Statement of Operations.

Following the third anniversary of the issue date, dividends on the Series A Preferred Stock will be accrued by adding to the Liquidation Preference or paid in cash, or a combination thereof. In addition, holders of the Series A Preferred Stock will participate in any dividend or distribution of cash or other property paid in respect of the Common Stock pro rata with the holders of the Common Stock (other than certain dividends or distributions that trigger an adjustment to the conversion rate, as described in the Certificate of Designations), as if all shares of Series A Preferred Stock had been converted into Common Stock immediately prior to the date on which such holders of the Common Stock became entitled to such dividend or distribution.

**Treasury Stock**

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires in 24 months. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. We purchased 768,693 shares during the three months ended June 30, 2018 under the Share Buyback Program at an average share price of $4.79.

Under the Share Buyback Program we purchased an additional 225,504 shares during July 2018 at an average share price of $4.94.

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**Warrants**

At June 30, 2018, there were 34,980,163 warrants outstanding. As part of its IPO, Quinpario had issued 35,000,000 units including one share of common stock and one warrant of which 34,980,163 have been separated from the original unit and 19,837 warrants remain an unseparated part of the originally issued units. The warrants are traded on the OTC Bulletin Board as of June 30, 2018.

Each warrant entitles the holder to purchase one-half of one share of common stock at a price of $5.75 per half share ($11.50 per whole share). Warrants may be exercised only for a whole number of shares of common stock. No fractional shares will be issued upon exercise of the warrants. Each warrant is currently exercisable and will expire July 12, 2022 (five years after the completion of the Novitex Business Combination), or earlier upon redemption.

The Company may call the warrants for redemption at a price of $0.01 per warrant upon a minimum of 30 days' prior written notice of redemption, if, and only if, the last sales price of our shares of common stock equals or exceeds $24.00 per share for any 20 trading days within a 30 trading day period (the "30-day trading period") ending three business days before we send the notice of redemption, and if, and only if, there is a current registration statement in effect with respect to the shares of common stock underlying such warrants commencing five business days prior to the 30-day trading period and continuing each day thereafter until the date of redemption.

**13. Related-Party Transactions**

**Leasing Transactions**

Certain operating companies lease their operating facilities from HOV RE, LLC and HOV Services Limited, which are affiliates through common interest held by Ex-Sigma 2 LLC, our largest stockholder. The rental expense for these operating leases was $0.2 million and $0.2 million for the three months ended June 30, 2018 and 2017, and $0.4 million and $0.3 million for the six months ended June 30, 2018 and 2017.

**Consulting Agreement**

The Company receives services from Oakana Holdings, Inc. The Company and Oakana Holdings, Inc. are related through a family relationship between certain shareholders and the president of Oakana Holdings, Inc. The expense recognized for these services was $0.1 million for the three months ended June 30, 2018 and no such expense was recognized for the three months ended June 30, 2017. The expense recognized for these services was $0.1 million for the six months ended June 30, 2018 and no such expense was recognized for the six months ended June 30, 2017.

The Company received consulting services from Shadow Pond, LLC. Shadow Pond, LLC is wholly owned and controlled by Vik Negi, our Executive Vice President Treasury and Business Affairs. The consulting arrangement was established to compensate Mr. Negi for his services to the Company prior to becoming an employee. The expense recognized for these services was $0.1 million and $0.2 million for the six months ended June 30, 2018 and 2017, respectively. This consulting arrangement with Shadow Pond, LLC terminated on April 1, 2018 and Mr. Negi continues to provide services as an employee of the Company. As such, there were no additional expenses for the three months ended June 30, 2018.

**Relationship with HandsOn Global Management**

The Company incurred management fees to HandsOn Global Management ("HGM"), SourceHOV's former owner, of $1.5 million and $3.0 million for the three and six month periods ended June 30, 2017. The management agreement terminated in 2017 and there were no such fees for the three and six months ended June 30, 2018.

The Company incurred reimbursable travel expenses to HGM of $0.1 million and $0.2 million for the three months ended June 30, 2018 and 2017, and $0.1 million and $0.5 million for the six months ended June 30, 2018 and 2017.

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Pursuant to a master agreement dated January 1, 2015 between Rule 14, LLC and SourceHOV, the Company incurs marketing fees to Rule 14, LLC, a portfolio company of HGM. Similarly, SourceHOV is party to ten master agreements with entities affiliated with HGM's managed funds, each of which were entered into during 2015 and 2016. Each master agreement provides SourceHOV with free use of technology and includes a reseller arrangement pursuant to which SourceHOV is entitled to sell these services to third parties. Any revenue earned by SourceHOV in such third-party sale is shared 75%/25% with each of HGM's venture affiliates in favor of SourceHOV. The brands Zuma, Athena, Peri, BancMate, Spring, Jet, Teletype, CourtQ and Rewardio are part of the HGM managed funds. SourceHOV has the license to use and resell such brands, as described therein. The fee relating to these agreements was $0.2 million and $0.1 million for the three months ended June 30, 2018 and 2017. We incurred fees relating to these agreements of $0.4 million and $0.1 million for the six months ended June 30, 2018 and 2017, respectively.

**Relationship with HOV Services, Ltd.**

HOV Services, Ltd. provides the Company data capture and technology services. HOV Services, Ltd is an indirect equity holder of Ex-Sigma LLC. The expense recognized for these services was $0.4 million and $0.5 million for the three months ended June 30, 2018 and 2017, and $0.8 million and $0.9 million for the six months ended June 30, 2018 and 2017, respectively. These expenses are included in cost of revenue in the consolidated statements of operations.

**Relationship with Apollo Global Management, LLC**

The Company provides services to and receives services from certain Apollo affiliated companies. Funds managed by Apollo Global Management, LLC have the right to designate two of the Company's directors. On November 18, 2014, the Company's subsidiary, Exela Enterprise Solutions, Inc. ("Novitex Solutions") entered into a master services agreement with Management Holdings, an indirect wholly owned subsidiary of Apollo. Pursuant to this master services agreement, Novitex Solutions provides Management Holdings printer supplies and maintenance services, including toner maintenance, training, quarterly business review and printer procurement. We recognized revenue of $0.2 million in our consolidated statements of operations from Apollo affiliated companies under this agreement for the three months ended June 30, 2018. We recognized revenue of $0.3 million for the six months ended June 30, 2018 in our consolidated statements of operations from Apollo affiliated companies under this agreement.

On January 18, 2017, Novitex Solutions entered into a master purchase and professional services agreement with Caesars Enterprise Services, LLC ("Caesars"). Caesars is controlled by investment funds affiliated with Apollo. Pursuant to this master purchase and professional services agreement, Novitex Solutions provides managed print services to Caesars, including general equipment operation, supply management, support services and technical support. We recognized revenue of approximately $1.0 million and $2.0 million in our consolidated statements of operations from Caesars under this master purchase and professional services agreement for the three and six months ended June 30, 2018.

On May 5, 2017, Novitex Solutions entered into a master services agreement with ADT LLC. ADT LLC is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Novitex Solutions provides ADT LLC with mailroom and onsite mail delivery services at an ADT LLC office location and managed print services, including supply management, equipment maintenance and technical support services. We recognized revenue of $0.1 million and $0.2 million in our consolidated statements of operations from ADT LLC under this master services agreement for the three and six months ended June 30, 2018.

On July 20, 2017, Novitex Solutions entered into a master services agreement with Diamond Resorts Centralized Services Company. Diamond Resorts Centralized Services Company is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Novitex Solutions

*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*

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provides commercial print and promotional product procurement services to Diamond Resorts Centralized Services Company, including sourcing, inventory management and fulfillment services. The Company recognized revenue of $1.7 million and $4.2 million for the three and six months ended June 30, 2018 and cost of revenue of $0.1 million for the six months ended June 30, 2018 from Diamond Resorts Centralized Services Company under this master services agreement. No cost of revenue was recognized for the three months ended June 30, 2018 under this agreement.

In April 2016, Novitex Solutions entered into a master services agreement with Presidio Networked Solutions Group, LLC ("Presidio Group"), a wholly owned subsidiary of Presidio, Inc., a portion of which is owned by affiliates of Apollo and with a common Apollo designated director. Pursuant to this master services agreement, Presidio Group provides Novitex Solutions with employees, subcontractors, and/or goods and services. For the three and six months ended June 30, 2018 there were related party expenses of $0.2 million and $0.3 million, respectively, for this service.

**Payable Balances with Affiliates**

Payable balances with affiliates as of June 30, 2018 and December 31, 2017 are as follows:

| | June 30, 2018 | December 31, 2017 |
|---|---|---|
| HOV Services, Ltd | $ 519 | $ 286 |
| Rule 14 | 86 | 158 |
| HGM | 11,306 | 13,689 |
| Apollo affiliated company | 76 | 312 |
| | $ 11,987 | $ 14,445 |

**14. Segment Information**

The Company's operating segments are significant strategic business units that align its products and services with how it manages its business, approach the markets and interacts with its clients. The Company is organized into three segments: ITPS, HS, and LLPS.

**ITPS:** Our ITPS segment provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries.

**HS:** Our HS segment operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets.

**LLPS:** Our LLPS segment provides a broad and active array of legal services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters.

The chief operating decision maker reviews operating segment revenue and gross profit. The Company does not allocate selling, general, and administrative expenses, depreciation and amortization, interest expense and sundry, net. The Company manages assets on a total company basis, not by operating segment, and therefore asset information and capital expenditures by operating segments are not presented.

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**Exela Technologies, Inc. and Subsidiaries**
**Notes to the Condensed Consolidated Financial Statements**
*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*
(Unaudited)

| | Three months ended June 30, 2018 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 330,132 | $ 56,314 | $ 23,936 | $ 410,382 |
| Cost of revenue (exclusive of depreciation and amortization) | 261,131 | 39,260 | 13,563 | 313,954 |
| Selling, general and administrative expenses | | | | 46,723 |
| Depreciation and amortization | | | | 36,368 |
| Related party expense | | | | 1,402 |
| Interest expense, net | | | | 38,527 |
| Sundry expense, net | | | | (2,325) |
| Other income, net | | | | (704) |
| Net loss before income taxes | | | | $ (23,563) |

| | Three months ended June 30, 2017 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 129,741 | $ 58,065 | $ 21,576 | $ 209,382 |
| Cost of revenue (exclusive of depreciation and amortization) | 89,246 | 37,872 | 13,300 | 140,418 |
| Selling, general and administrative expenses | | | | 34,998 |
| Depreciation and amortization | | | | 21,406 |
| Related party expense | | | | 2,456 |
| Interest expense, net | | | | 27,869 |
| Sundry expense, net | | | | (327) |
| Other income, net | | | | — |
| Net loss before income taxes | | | | $ (17,438) |

| | Six months ended June 30, 2018 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 642,068 | $ 114,946 | $ 46,535 | $ 803,549 |
| Cost of revenue (exclusive of depreciation and amortization) | 506,304 | 74,216 | 27,226 | 607,746 |
| Selling, general and administrative expenses | | | | 92,318 |
| Depreciation and amortization | | | | 74,386 |
| Related party expense | | | | 2,508 |
| Interest expense, net | | | | 76,544 |
| Sundry expense, net | | | | (2,389) |
| Other income, net | | | | (4,032) |
| Net loss before income taxes | | | | $ (43,532) |

*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*

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| | Six months ended June 30, 2017 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 265,538 | $ 117,143 | $ 44,961 | $ 427,642 |
| Cost of revenue (exclusive of depreciation and amortization) | 180,846 | 75,700 | 27,580 | 284,126 |
| Selling, general and administrative expenses | | | | 70,578 |
| Depreciation and amortization | | | | 42,727 |
| Related party expense | | | | 4,841 |
| Interest expense, net | | | | 54,088 |
| Sundry expense, net | | | | 2,397 |
| Other income, net | | | | — |
| Net loss before income taxes | | | | $ (31,115) |

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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis together with our condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q. Among other things, the condensed consolidated financial statements include more detailed information regarding the basis of presentation for the financial data than included in the following discussion. Amounts in thousands of United States dollars.*

***Forward Looking Statements***

*Certain statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this quarterly report are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by words such as "may", "should", "would", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "seem", "seek", "continue", "future", "will", "expect", "outlook" or other similar words, phrases or expressions. These forward-looking statements include statements regarding our industry, future events, the estimated or anticipated future results and benefits of the Novitex Business Combination, future opportunities for the combined company, and other statements that are not historical facts. These statements are based on the current expectations of Exela management and are not predictions of actual performance. These statements are subject to a number of risks and uncertainties regarding Exela's businesses and actual results may differ materially. The factors that may affect our results include, among others: the impact of political and economic conditions on the demand for our services; the impact of a data or security breach; the impact of competition or alternatives to our services on our business pricing and other actions by competitors; our ability to address technological development and change in order to keep pace with our industry and the industries of our customers; the impact of terrorism, natural disasters or similar events on our business; the effect of legislative and regulatory actions in the United States and internationally; the impact of operational failure due to the unavailability or failure of third-party services on which we rely; the effect of intellectual property infringement; and other factors discussed in this quarterly report and our Annual Report on Form 10-K for the year ended December 31, 2017 (our "Annual Report") under the heading "Risk Factors" and otherwise identified or discussed in this quarterly report. You should consider these factors carefully in evaluating forward-looking statements and are cautioned not to place undue reliance on such statements, which speak only as of the date of this quarterly report. It is impossible for us to predict new events or circumstances that may arise in the future or how they may affect us. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this quarterly report. We are not including the information provided on the websites referenced herein as part of, or incorporating such information by reference into, this quarterly report. In addition, forward-looking statements provide Exela's expectations, plans or forecasts of future events and views as of the date of this quarterly report. Exela anticipates that subsequent events and developments will cause Exela's assessments to change. These forward-looking statements should not be relied upon as representing Exela's assessments as of any date subsequent to the date of this quarterly report.*

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**Overview**

We are a global provider of transaction processing solutions, enterprise information management, document management and digital business process services. Our technology-enabled solutions allow multi-national organizations to address critical challenges resulting from the massive amounts of data obtained and created through their daily global operations. Our solutions address the life cycle of transaction processing and enterprise information management, from enabling payment gateways and data exchanges across multiple systems, to matching inputs against contracts and handling exceptions, to ultimately depositing payments and distributing communications. We believe our process expertise, information technology capabilities and operational insights enable our clients' organizations to more efficiently and effectively execute transactions, make decisions, drive revenue and profitability, and communicate critical information to their employees, customers, partners, and vendors.

**History**

We are a former blank check company that completed our initial public offering on January 22, 2015. In July 2017, Exela Technologies, Inc. ("Exela"), formerly known as Quinpario Acquisition Corp. 2 ("Quinpario"), completed its acquisition of SourceHOV Holdings, Inc. ("SourceHOV") and Novitex Holdings, Inc. ("Novitex") pursuant to the business combination agreement dated February 21, 2017 ("Novitex Business Combination"). In conjunction with the completion of the Novitex Business Combination, Quinpario was renamed as Exela Technologies, Inc.

The Novitex Business Combination was accounted for as a reverse merger for which SourceHOV was determined to be the accounting acquirer. Outstanding shares of SourceHOV were converted into equity in a newly formed entity that acquired our common shares, presented as a recapitalization, and the net assets of Quinpario were acquired at historical cost, with no goodwill or other intangible assets recorded. The acquisition of Novitex was treated as a business combination under ASC 805 and was accounted for using the acquisition method. The strategic combination of SourceHOV and Novitex formed Exela, which is one of the largest global providers of information processing solutions based on revenues.

**Basis of Presentation**

This analysis is presented on a consolidated basis. In addition, a description is provided of significant transactions and events that have an impact on the comparability of the results being analyzed. Due to our specific situation, the financial information presented for the three and six months ended June 30, 2018 is only partially comparable to the financial information for the three and six months ended June 30, 2017. Since SourceHOV was deemed the accounting acquirer in the Novitex Business Combination consummated on July 12, 2017, the financial information presented for the three and six months ended June 30, 2017 reflects the financial information and activities of SourceHOV only. The financial information presented for the three and six months ended June 30, 2018 includes the financial information and activities for SourceHOV and Novitex for the period January 1, 2018 to June 30, 2018. This lack of comparability needs to be taken into account when reading the discussion and analysis of our results of operations and cash flows.

**Our Segments**

Our three reportable segments are Information & Transaction Processing Solutions (''ITPS''), Healthcare Solutions (''HS''), and Legal & Loss Prevention Services (''LLPS''). These segments are comprised of significant strategic business units that align our transaction processing solutions and enterprise information management products and services with how we manage our business, approach our key markets and interact with our clients based on their respective industries.

**ITPS:** Our largest segment, ITPS, provides a wide range of solutions and services designed to aid businesses in information capture, processing, and distribution to customers primarily in the financial

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services, commercial, public sector and legal industries. Our major customers include the top 10 U.S. banks, 9 of the top 10 U.S. insurance companies, 5 of the top U.S. telecom companies, over 40 utility companies, over 30 state and county departments, and over 80 government entities. Our ITPS offerings enable companies to increase availability of working capital, reduce turnaround times for application processes, increase regulatory compliance and enhance consumer engagement.

**HS**: HS operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets. We serve the top 5 healthcare insurance payers and over 900 healthcare providers.

**LLPS**: Our LLPS segment provides a broad and active array of support services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters. Our client base consists of corporate counsel, government attorneys, and law firms.

**Acquisitions**

In July 2017, we completed the Novitex Business Combination. SourceHOV was deemed to be the accounting acquirer. Through the acquisition of SourceHOV and Novitex, we continue to pursue revenue synergies, leverage brand awareness, generate greater free cash flow, expand the existing Novitex sales channels, and increase utilization of the existing workforce. We anticipate future opportunities for growth through the ability to leverage additional future services and capabilities.

Prior to the Novitex Business Combination, SourceHOV transformed into a multi-industry solution provider and acquired key technology through the acquisition of TransCentra, Inc. (‘‘TransCentra’’), a provider of integrated outsourced billing, remittance processing and imaging software and consulting services. The addition of TransCentra increased SourceHOV’s footprint in the remittance transaction processing and presentment area, expanded its mobile banking offering and enabled significant cross-selling and up-selling opportunities.

On April 10, 2018, Exela completed the acquisition of Asterion International Group (“Asterion”), a well-established provider of technology driven business process outsourcing, document management and business process automation (BPA) across Europe. Asterion currently serves over 250 key customers in Europe from 13 operating locations and 30 customer sites. The purchase price was approximately $19.5 million. The acquisition comes with minimal customer overlap and is strategic to expand Exela’s pro forma combined European business to over $200 million in annual revenue. This acquisition will not only enable Asterion’s customers to access Exela’s full suite of BPA solutions but also strategically position Exela to expand its existing revenue base through a broader portfolio of offerings with a larger European presence.

**Revenues**

ITPS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed, licensing and maintenance fees for technology sales, and a mix of fixed management fee and transactional revenue for document logistics and location services. HS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed for healthcare payers and providers. LLPS revenues are primarily based on time and materials pricing as well as through transactional services priced on a per item basis.

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**People**

We draw on the business and technical expertise of our talented and diverse global workforce to provide our customers with high-quality services. Our business leaders bring a strong diversity of experience in our industry and a track record of successful performance and execution.

Costs associated with our employees represent the most significant expense for our business. We incurred personnel costs of $180.6 million and $96.7 million for the three months ended June 30, 2018 and 2017, respectively. We incurred personnel costs of $347.7 million and $192.3 million for the six months ended June 30, 2018 and 2017, respectively. The majority of our personnel costs are variable and are incurred only while we are providing our services.

**Key Performance Indicators**

We use a variety of operational and financial measures to assess our performance. Among the measures considered by our management are the following:

Revenue by segment;

EBITDA; and

Adjusted EBITDA

Revenue

We analyze our revenue by comparing actual monthly revenue to internal projections and prior periods across our operating segments in order to assess performance, identify potential areas for improvement, and determine whether our segments are meeting management's expectations.

EBITDA and Adjusted EBITDA

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integrations costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses. See ''—Other Financial Information (Non-GAAP Financial Measures)'' for more information and a reconciliation of EBITDA and Adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP.

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**Results of Operations**

Three Months Ended June 30, 2018 compared to Three Months Ended June 30, 2017:

| | Three Months ended June 30, 2018 | Three Months ended June 30, 2017 | Change | % Change |
|---|---|---|---|---|
| Revenue: | | | | |
| ITPS | $ 330,132 | $ 129,741 | $ 200,391 | 154.45% |
| HS | 56,314 | 58,065 | (1,751) | -3.02% |
| LLPS | 23,936 | 21,576 | 2,360 | 10.94% |
| Total revenue | 410,382 | 209,382 | 201,000 | 96.00% |
| Cost of revenues (exclusive of depreciation and amortization): | | | | |
| ITPS | 261,131 | 89,246 | 171,885 | 192.60% |
| HS | 39,260 | 37,872 | 1,388 | 3.66% |
| LLPS | 13,563 | 13,300 | 263 | 1.98% |
| Total cost of revenues | 313,954 | 140,418 | 173,536 | 123.59% |
| Selling, general and administrative expenses | 46,723 | 34,998 | 11,725 | 33.50% |
| Depreciation and amortization | 36,368 | 21,406 | 14,962 | 69.90% |
| Related party expense | 1,402 | 2,456 | (1,054) | -42.92% |
| Operating income | 11,935 | 10,104 | 1,831 | 18.12% |
| Interest expense, net | 38,527 | 27,869 | 10,658 | 38.24% |
| Sundry expense/(income), net | (2,325) | (327) | (1,998) | 611.01% |
| Other income, net | (704) | — | (704) | — |
| Net loss before taxes | (23,563) | (17,438) | (6,125) | 35.12% |
| Income tax expense | (1,619) | (2,074) | 455 | -21.94% |
| Net loss | $ (25,182) | $ (19,512) | $ (5,670) | 29.06% |

***Revenue***

The increase in total revenues was primarily related to the Novitex Business Combination and the Asterion Business Combination. Our ITPS, HS, and LLPS segments constituted 80.4%, 13.7%, and 5.8% of total revenue, respectively, for the three months ended June 30, 2018, compared to 62.0%, 27.7%, and 10.3%, respectively, for the three months ended June 30, 2017. The revenue changes by reporting segment were as follows:

ITPS—The increase was primarily attributable to the Novitex Business Combination and the Asterion Business Combination, which contributed $176.1 and $20.9 million, or 98.3% of the increase.

HS—The decrease was primarily attributable to lower volume for a specific customer during the second quarter of 2018.

LLPS— The increase was primarily attributable to legal claims revenue partially offset by a decrease due to the disposal of Meridian Consulting in the first quarter of 2017.

***Cost of Revenue***

The increase in total cost of revenue was primarily related to the Novitex Business Combination and the Asterion Business Combination. The cost of revenue changes by operating segment was as follows:

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ITPS—The increase was primarily attributable to the Novitex Business Combination and the Asterion Business Combination, which contributed approximately $148.1 million and $19.2 million, or 97.3% of the increase.

HS— The amounts are materially consistent with the prior period.

LLPS— The amounts are materially consistent with the prior period.

***Selling, General and Administrative Expenses***

The increase was primarily attributable to the Novitex Business Combination and the Asterion Business Combination, which contributed $8.6 million and $1.7 million in expense for the three months ended June 30, 2018.

***Depreciation & Amortization***

The increase was primarily attributable to amortization of trademarks and trade names resulting in higher amortization expense.

***Related Party Expenses***

The decrease was primarily attributable the termination of the management agreement with HandsOn Global Management ("HGM") resulting in lower management fees expense of $1.5 million offset by increases in service agreements with Apollo Global Management LLC and consulting agreements.

***Interest Expense***

The increase was primarily attributable to the issuance of new debt in conjunction with the Novitex Business Combination.

***Sundry Expense (Income)***

The increase was primarily attributable to foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

The increase is primarily attributable to an interest rate swap entered into in 2017. The interest rate swap was not designated as a hedge. As such, changes in the fair value of this derivative instrument of $0.7 million for the quarter ended June 30, 2018 were recorded directly in earnings.

***Income Tax (Expense) Benefit***

We had income tax expense of $1.6 million for the three months ended June 30, 2018 compared to $2.1 million for the three months ended June 30, 2017. The change in the income tax expense was primarily attributable to our change in judgment related to the realizability of certain deferred tax assets. The change in the effective tax rate for the three months ended June 30, 2018 resulted from permanent tax adjustments and valuation allowances against disallowed interest expense deferred tax assets that are not more-likely-than-not to be realized.

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Six Months Ended June 30, 2018 compared to Six Months Ended June 30, 2017:

| | Six Months ended June 30, 2018 | Six Months ended June 30, 2017 | Change | % Change |
|---|---|---|---|---|
| Revenue: | | | | |
| ITPS | $ 642,068 | $ 265,538 | $ 376,530 | 141.80% |
| HS | 114,946 | 117,143 | (2,197) | -1.88% |
| LLPS | 46,535 | 44,961 | 1,574 | 3.50% |
| Total revenue | 803,549 | 427,642 | 375,907 | 87.90% |
| Cost of revenues (exclusive of depreciation and amortization): | | | | |
| ITPS | 506,304 | 180,846 | 325,458 | 179.96% |
| HS | 74,216 | 75,700 | (1,484) | -1.96% |
| LLPS | 27,226 | 27,580 | (354) | -1.28% |
| Total cost of revenues | 607,746 | 284,126 | 323,620 | 113.90% |
| Selling, general and administrative expenses | 92,318 | 70,578 | 21,740 | 30.80% |
| Depreciation and amortization | 74,386 | 42,727 | 31,659 | 74.10% |
| Related party expense | 2,508 | 4,841 | (2,333) | -48.19% |
| Operating income | 26,591 | 25,370 | 1,221 | 4.81% |
| Interest expense, net | 76,544 | 54,088 | 22,456 | 41.52% |
| Sundry expense/(income), net | (2,389) | 2,397 | (4,786) | -199.67% |
| Other income, net | (4,032) | — | (4,032) | — |
| Net loss before taxes | (43,532) | (31,115) | (12,417) | 39.91% |
| Income tax expense | (5,644) | (4,078) | (1,566) | 38.40% |
| Net loss | $ (49,176) | $ (35,193) | $ (13,983) | 39.73% |

***Revenue***

The increase in total revenues was primarily related to the Novitex Business Combination and the Asterion Business Combination. Our ITPS, HS, and LLPS segments constituted 79.9%, 14.3%, and 5.8% of total revenue, respectively, for the six months ended June 30, 2018, compared to 62.1%, 27.4%, and 10.5%, respectively, for the six months ended June 30, 2017. The revenue changes by reporting segment were as follows:

ITPS—The increase was primarily attributable to the Novitex Business Combination and the Asterion Business Combination, which contributed $350.1 million and $20.9 million, or 98.6% of the increase.

HS— The decrease was primarily attributable to lower volume for a specific customer during the second quarter of 2018.

LLPS— The increase was primarily attributable to legal claims offset by a decrease due to the disposal of Meridian Consulting in the first quarter of 2017.

***Cost of Revenue***

The increase in total cost of revenue was primarily related to the Novitex Business Combination in and the Asterion Business Combination. The cost of revenue changes by operating segment was as follows:

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ITPS—The increase was primarily attributable to the Novitex Business Combination and the Asterion Business combination, which contributed approximately $298.5 million and $19.2 million, or 97.6% of the increase.

HS— The decrease was primarily driven by cost savings synergies.

LLPS— The amounts are materially consistent with the prior period.

***Selling, General and Administrative Expenses***

The increase was primarily attributable to the Novitex Business Combination and the Asterion Business Combination, which contributed $18.1 and $1.7 million in expense for the six months ended June 30, 2018.

***Depreciation & Amortization***

The increase was primarily attributable to amortization of trademarks and trade names resulting in higher amortization expense.

***Related Party Expenses***

The decrease was primarily attributable the termination of the management agreement with HandsOn Global Management resulting in lower management fees expense of $3.1 million offset by increases in service agreements with Apollo Global Management LLC and consulting agreements.

***Interest Expense***

The increase was primarily attributable to the issuance of new debt in conjunction with the Novitex Business Combination.

***Sundry Expense***

The decrease was primarily attributable to foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

The increase is primarily attributable to an interest rate swap entered into in 2017. The interest rate swap was not designated as a hedge. As such, changes in the fair value of this derivative instrument of $4.0 million for the six months ended June 30, 2018 were recorded directly in earnings.

***Income Tax (Expense) Benefit***

We had income tax expense of $5.6 million for the six months ended June 30, 2018 compared to $4.1 million for the six months ended June 30, 2017. The change in the income tax expense was primarily attributable to our change in judgment related to the realizability of certain deferred tax assets. The change in the effective tax rate for the six months ended June 30, 2018 resulted from permanent tax adjustments and valuation allowances against disallowed interest expense deferred tax assets that are not more-likely-than-not to be realized.

**Other Financial Information (Non-GAAP Financial Measures)**

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define

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Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integrations costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses.

We present EBITDA and Adjusted EBITDA because we believe they provide useful information regarding the factors and trends affecting its business in addition to measures calculated under GAAP. Additionally, our credit agreement requires us to comply with certain EBITDA related metrics. Refer to ‘‘—Liquidity and Capital Resources—Credit Facility.’’

***Note Regarding Non-GAAP Financial Measures***

EBITDA and Adjusted EBITDA are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial performance and results of operations as our board of directors and management use EBITDA and Adjusted EBITDA to assess our financial performance, because it allows them to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization) and items outside the control of our management team. Net loss is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some but not all items that affect the most directly comparable GAAP financial measures. You should not consider EBITDA and Adjusted EBITDA in isolation or as substitutes for an analysis of our results as reported under GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

**Three months ended June 30, 2018 compared to the Three Months ended June 30, 2017**

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the three months ended June 30, 2018 and 2017:

| | Three months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Net Loss | $ (25,182) | $ (19,512) |
| Taxes | 1,619 | 2,074 |
| Interest Expense | 38,527 | 27,869 |
| Depreciation and Amortization | 36,368 | 21,406 |
| EBITDA | 51,332 | 31,837 |
| Optimization and Restructuring expenses (1) | 13,009 | 7,496 |
| Transaction related costs (2) | 819 | 4,174 |
| Non-cash equity compensation (3) | 1,936 | 1,906 |
| Other non-cash charges (4) | 3,702 | 75 |
| Loss on sale of assets | — | 18 |
| Management, board fees and expenses (5) | — | 2,093 |
| Gain/Loss on Derivative Instruments | (704) | — |
| Adjusted EBITDA | $ 70,094 | $ 47,599 |

(1) Adjustment represents net salary and benefits associated with positions that are part of the on-going savings initiatives including severance, retention bonuses, and related fees and expenses.

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Additionally, the adjustment includes charges incurred by us to terminate existing lease and vendor contracts as part of the on-going savings initiatives.

(2) Represents costs incurred related to transactions for completed or contemplated transactions during the period.

(3) Represents the non-cash charges related to restricted stock units granted by Ex-Sigma, LLC to our employees that vested during the year.

(4) Represents fair value adjustments to deferred revenue and deferred rent accounts established as part of purchase accounting.

(5) Amount represents management fees paid to HGM, Board of Directors fees and corresponding travel, and other expenses (e.g., rating agency fees, chargebacks) which are not expected to continue on a go-forward basis.

***EBITDA and Adjusted EBITDA***

EBITDA was $51.3 million for the three months ended June 30, 2018 compared to $31.8 million for the three months ended June 30, 2017. Adjusted EBITDA was $70.1 million for the three months ended June 30, 2018 compared to $47.6 million for the three months ended June 30, 2017. The increase in EBITDA for the three months ended June 30, 2018 was primarily due to the net loss that was comprised of significantly higher interest expense and depreciation and amortization expense resulting from the Novitex Business Combination in 2017.

**Six months ended June 30, 2018 compared to the Six Months ended June 30, 2017:**

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the six months ended June 30, 2018 and 2017:

| | Six months ended June 30, | |
|---|---|---|
| | 2018 | 2017 |
| Net Loss | $ (49,176) | $ (35,193) |
| Taxes | 5,644 | 4,078 |
| Interest Expense | 76,545 | 54,088 |
| Depreciation and Amortization | 74,386 | 42,727 |
| EBITDA | 107,399 | 65,700 |
| Optimization and Restructuring expenses (1) | 27,522 | 11,833 |
| Transaction related costs (2) | 1,876 | 9,240 |
| Non-cash equity compensation (3) | 2,895 | 2,217 |
| Other non-cash charges (4) | 4,000 | 150 |
| Loss on sale of assets | — | 18 |
| Non-cash gain on sale of Meridian (5) | — | (251) |
| Management, board fees and expenses (6) | — | 4,153 |
| Gain/Loss on Derivative Instruments | (4,032) | — |
| Adjusted EBITDA | $ 139,660 | $ 93,060 |

(1) Adjustment represents net salary and benefits associated with positions that are part of the on-going savings initiatives including severance, retention bonuses, and related fees and expenses. Additionally, the adjustment includes charges incurred by us to terminate existing lease and vendor contracts as part of the on-going savings initiatives.

(2) Represents costs incurred related to transactions for completed or contemplated transactions during the period.

(3) Represents the non-cash charges related to restricted stock units granted by Ex-Sigma, LLC to our employees that vested during the year.

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(4) Represents fair value adjustments to deferred revenue and deferred rent accounts established as part of purchase accounting.

(5) Represents a gain recognized on the disposal of Meridian Consulting Group, LLC.

(6) Amount represents management fees paid to HGM, Board of Directors fees and corresponding travel, and other expenses (e.g., rating agency fees, chargebacks) which are not expected to continue on a go-forward basis.

***EBITDA and Adjusted EBITDA***

EBITDA was $107.4 million for the six months ended June 30, 2018 compared to $65.7 million for the six months ended June 30, 2017. Adjusted EBITDA was $139.7 million for the six months ended June 30, 2018 compared to $93.1 million for the six months ended June 30, 2017. The increase in EBITDA for the six months ended June 30, 2018 was primarily due to the net loss that was comprised of significantly higher interest expense and depreciation and amortization expense resulting from the Novitex Business Combination in 2017.

**Liquidity and Capital Resources**

**Overview**

Our primary source of liquidity is principally cash generated from operating activities supplemented as necessary on a short-term basis by borrowings against our senior secured revolving credit facility. We believe our current level of cash and short-term financing capabilities along with future cash flows from operations are sufficient to meet the needs of the business.

We currently expect to spend approximately $40 to $45 million on total capital expenditures over the next twelve months. We believe that our operating cash flow and available borrowings under our credit facility will be sufficient to fund our operations for at least the next twelve months.

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the “Repricing”). The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

At June 30, 2018, cash and cash equivalents totaled $55.8 million and we had availability of $79.4 million under our senior secured revolving credit facility.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

| | Six months ended June 30, 2018 | Six months ended June 30, 2017 |
|---|---|---|
| Cash flow from operating activities | $ 48,251 | $ 33,260 |
| Cash flow used in investing activities | (19,185) | (9,786) |
| Cash flows used in financing activities | (23,274) | (4,709) |
| Subtotal | 5,792 | 18,765 |
| Effect of exchange rates on cash | (410) | 240 |
| Net increase in cash | $ 5,382 | $ 19,005 |

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**Analysis of Cash Flow Changes between the Six Months Ended June 30, 2018 and June 30, 2017**

Operating Activities—The increase of $18.4 million in cash flows from operating activities for the six months ended June 30, 2018 was primarily due to increased revenues and higher cash flows relating to the timing of payment of accounts payable and accrued liabilities, partially offset by an increase in cost of revenues, higher interest payments, and lower cash inflows from accounts receivable due to unbilled receivables from new customers.

Investing Activities—The increase of $9.4 million in cash used in investing activities was primarily due to the sale of Meridian in the first quarter of 2017, cash paid in the acquisition of Asterion, and purchases of property, plant and equipment.

Financing Activities—The increase of $18.6 million in cash used in financing activities was primarily due to contributions from shareholders during the first quarter of 2017, increased cash paid for equity issuance costs during the first quarter of 2018, and cash paid for common share repurchases in the second quarter of 2018, partially offset by lower principal payments on long-term obligations.

**Indebtedness**

In connection with the Novitex Business Combination, we acquired debt facilities and issued notes totaling $1.4 billion. Proceeds from the indebtedness were used to pay off credit facilities existing immediately before the Novitex Business Combination.

*Senior Credit Facilities*

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the “Credit Agreement”) providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, (i) a $350.0 million senior secured term loan maturing July 12, 2023 with an original issue discount of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022, none of which is currently drawn. The Credit Agreement provides for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company’s option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity. As of June 30, 2018 the interest rate applicable for the first lien senior secured term loan was 9.83%.

*Senior Secured Notes*

Senior secured notes of $1.0 billion due July 2023 were also issued as part of the Novitex Business Combination. The notes bear interest at a rate of 10.0% per year. We pay interest on the notes on January 15 and July 15 of each year, commencing on January 15, 2018. The notes are guaranteed by subsidiary guarantors pursuant to a supplemental indenture.

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*Letters of Credit*

As of June 30, 2018 and December 31, 2017, we had outstanding irrevocable letters of credit totaling approximately $20.6 million and $20.9 million, respectively, under the revolving credit facility.

**Contractual Obligations**

Our contractual obligations are described in our Form 10-K for the fiscal year ended December 31, 2017. There have been no material changes to that information since December 31, 2017.

**Potential Future Transactions**

We may, from time to time explore and evaluate possible strategic transactions, which may include joint ventures, as well as business acquisitions or the acquisition or disposition of assets. In order to pursue certain of these opportunities, additional funds will likely be required. There can be no assurance that we will enter into additional strategic transactions or alliances, nor do we know if we will be able to obtain the necessary financing for transactions that require additional funds on favorable terms, if at all.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

**Interest Rate Risk**

At June 30, 2018, we had $1,298.0 million of debt outstanding, with a weighted average interest rate of 9.9%. Interest is calculated under the terms of our credit agreement based on the greatest of certain specified base rates plus an applicable margin that varies based on certain factors. Assuming no change in the amount outstanding, the impact on interest expense of a 1% increase or decrease in the assumed weighted average interest rate would be approximately $13.0 million per year. In order to mitigate interest rate fluctuations with respect to term loan borrowings under the Credit Agreement, in November 2017, we entered into a three year; one-month LIBOR interest rate swap contract with a notional amount of $347.8 million, which at the time was the remaining principal balance of the term loan. The swap contract swaps out the floating rate interest risk related to the LIBOR with a fixed interest rate of 1.9275% effective January 12, 2018.

The interest rate swap, which is used to manage our exposure to interest rate movements and other identified risks, was not designated as a hedge. As such, changes in the fair value of the derivative are recorded directly to other income in the amount of $1.3 million and $4.7 million for the three and six months ended June 30, 2018.

**Foreign Currency Risk**

We are exposed to foreign currency risks that arise from normal business operations. These risks include transaction gains and losses associated with intercompany loans with foreign subsidiaries and transactions denominated in currencies other than a location’s functional currency. Contracts are denominated in currencies of major industrial countries.

**Market Risk**

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. We do not use derivatives for trading purposes, to generate income or to engage in speculative activity.

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**Off Balance Sheet Arrangements**

At June 30, 2018, we had no material off balance sheet arrangements, except for operating leases as described in our Form 10-K for the fiscal year ended December 31, 2017 and letters of credit described above under Liquidity and Capital Resources. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements.

**ITEM 4. INTERNAL CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that material information required to be disclosed in our reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been detected.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective due to a material weakness in internal control over financial reporting described below.

**Material Weakness identified as of December 31, 2017**

As of the year ended December 31, 2017, management identified a material weakness in internal controls over financial reporting relating to the supervision of specialists engaged to assist management in developing accounting conclusions with respect to a specific revenue contract and stock-based compensation accounting. We are addressing the material weakness through hiring additional experienced professionals. We have initiated changes in our process of evaluating information provided to and received from experts and are currently assessing the design and operating effectiveness of such controls.

**Management's Report on Internal Controls over Financial Reporting**

Our Annual Report on Form 10-K for the year ended December 31, 2017 did not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

*Appraisal Demand*

On September 21, 2017, former stockholders of SourceHOV, who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the Novitex Business Combination, which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their shares at the time of the Novitex Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). The parties have commenced discovery. Trial is currently scheduled for June 2019. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate any loss or range of loss that may arise from the Appraisal Action. Pursuant to the terms of the Novitex Business Combination Agreement, if such appraisal rights are perfected, a corresponding portion of shares of our Common Stock issued to Ex-Sigma 2 LLC, our principal stockholder, will be forfeited at such time as the PIPE Financing (as defined in the Consent, Waiver and Amendment dated June 15, 2017) is repaid. The Company intends to vigorously defend against the Appraisal Action.

*Other*

We are involved in various other legal proceedings that have arisen in the normal course of business. While the ultimate results of these matters cannot be predicted with certainty, we do not expect them to have a material adverse effect on our Consolidated Financial Statements.

## Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed below and the risk factors described in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and discussed below are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

***Evolving data security and privacy requirements could increase our costs, and any significant data security incident could disrupt our operations, harm our reputation, expose us to legal risks and otherwise materially adversely affect our business, results of operations and financial condition.***

Our business requires the secure processing and storage of sensitive information relating to our customers, employees, business partners and others. However, like any global enterprise operating in today's digital business environment, we are subject to threats to the security of our networks and data, including threats potentially involving criminal hackers, hacktivists, state-sponsored actors, corporate espionage, employee malfeasance, and human or technological error. These threats continue to increase as the frequency, intensity and sophistication of attempted attacks and intrusions increase around the world.

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Furthermore, in response to these threats there has been heightened legislative and regulatory focus on data privacy and security in the U.S., the European Union (EU) and elsewhere. As a result, we must comply with a growing and fast-evolving set of legal requirements in this area, including substantive cybersecurity standards as well as requirements for notifying regulators and affected individuals in the event of a data security incident. This regulatory environment is increasingly challenging and may present material obligations and risks to our business, including significantly expanded compliance burdens, costs and enforcement risks. For example, in May 2018, the EU's new General Data Protection Regulation, commonly referred to as GDPR, came into effect, which imposes a host of new data privacy and security requirements, imposing significant costs on us and carrying substantial penalties for non-compliance.

In addition, many of our customers, including credit card companies, have imposed data security standards that we must meet. In particular, we must comply in some cases with the highest level of data security standards required by the Payment Card Industry Security Standards Council. While we continue our efforts to meet these standards, new and revised standards may be imposed that may be difficult for us to meet and could increase our costs.

A significant cybersecurity incident could result in a range of potentially material negative consequences for us, including unauthorized access to, disclosure, modification, misuse, loss or destruction of company systems or data; theft of sensitive, regulated or confidential data, such as personal identifying information or our intellectual property; the loss of functionality of critical systems through ransomware, denial of service or other attacks; and business delays, service or system disruptions, damage to equipment and injury to persons or property. The costs and operational consequences of responding to and remediating an incident may be substantial. Further, we could be exposed to litigation, regulatory enforcement or other legal action as a result of an incident, carrying the potential for damages, fines, sanctions or other penalties, as well injunctive relief requiring costly compliance measures. A cybersecurity incident could also impact our brand, harm our reputation and adversely impact our relationship with our customers, employees and stockholders. Failure to appropriately address these issues could also give rise to potentially material legal risks and liabilities.

***If our Common Stock was no longer included in the Russell 2000 or Russell 3000 Indices, there could be a reduction in liquidity and prices for our stock.***

Our Common Stock is included in the Russell 2000 and Russell 3000 indices. Inclusion in these indices may have positively impacted the price, trading volume, and liquidity of our Common Stock, in part, because index funds or other institutional investors often purchase securities that are in these indices. Conversely, if our market capitalization falls below the minimum necessary to be included in either or both of these indices at any annual reconstitution date, the opposite could occur. Further, our inclusion in these indices is weighted based on the size of our market capitalization, so even if our market capitalization remains above the amount required to be included on these indices, if our market capitalization is below the amount it was on the most recent reconstitution date, our Common Stock could be weighted at a lower level. If our Common Stock is weighted at a lower level, holders attempting to track the composition of these indices will be required to sell our Common Stock to match the reweighting of the indices.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment

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considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires 24 months after authorized. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. In November of 2017, the Company purchased 49,300 shares as part of the Program. We purchased an additional 768,993 shares during the second quarter of 2018 at an average share price of $4.79. As of June 30, 2018, 817,993 shares had been repurchased under the Share Buyback Program. The Company records treasury stock using the cost method.

Under the Share Buyback Program we purchased an additional 225,504 shares during July 2018 at an average share price of $4.94.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

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**Item 6. Exhibits.**

| Exhibit No. | Description |
|---|---|
| 2.1 | Business Combination Agreement, dated as of February 21, 2017, by and among Quinpario Acquisition Corp. 2, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., Novitex Holdings, Inc., SourceHOV Holdings, Inc., Novitex Parent, L.P, HOVS LLC and HandsOn Fund 4 I, LLC (3) |
| 3.1 | Restated Certificate of Incorporation, dated July 12, 2017 (4) |
| 3.2 | Amended and Restated Bylaws, dated July 12, 2017 (4) |
| 4.1 | Specimen common stock Certificate (1) |
| 4.2 | Specimen Warrant Certificate (1) |
| 4.3 | Form of Warrant Agreement between Continental Stock Transfer & Trust Company and the Registrant (1) |
| 4.4 | Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc. as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee (4) |
| 4.5 | First Supplemental Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc., as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee (4) |
| 10.1 | Amendment No. 1 to Amended & Restated Registration Rights Agreement, dated April 11, 2018, by and between the Company and the Holders (5) |
| 31.1 | Certification of the Principal Executive Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 31.2 | Certification of the Principal Financial and Accounting Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 32.1 | Certification of the Principal Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 |
| 32.2 | Certification of the Principal Financial and Accounting Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

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(1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-198988).
(2) Incorporated by reference to the Registrant's Amendment No. 1 to Registration Statement on Form S-3, filed on February 16, 2018.
(3) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed on February 22, 2017.
(4) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 18, 2017.
(5) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on April 10, 2018.

**SIGNATURES**

Pursuant to the requirements of the Section 13 or 15 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 9th day of August, 2018.

EXELA TECHNOLOGIES, INC.

By: /s/ Ronald Cogburn
Ronald Cogburn
Chief Executive Officer (Principal Executive Officer)

By: /s/ James G. Reynolds
James G. Reynolds
Chief Financial Officer (Principal Financial and Accounting Officer)

# Exhibit 5

S&P Global
Market Intelligence

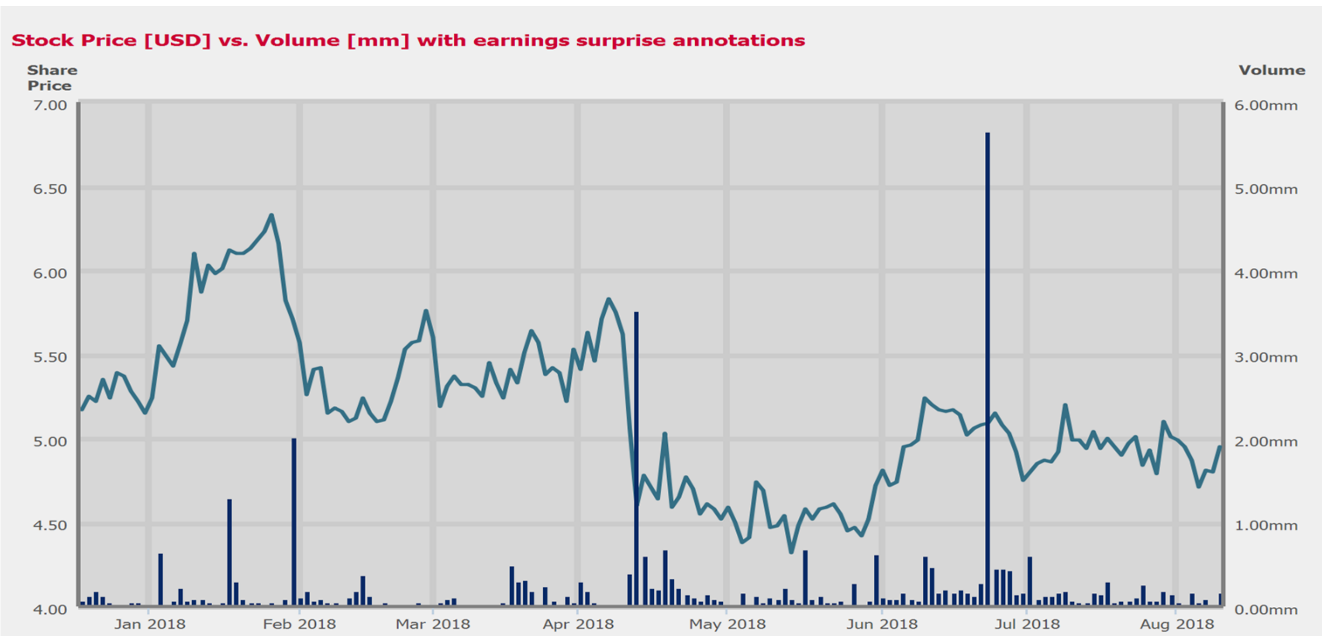
# Exela Technologies, Inc. NasdaqCM:XELA
# FQ2 2018 Earnings Call Transcripts

## Thursday, August 09, 2018 9:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ2 2018- | | | -FQ3 2018- | -FY 2018- | -FY 2019- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | (0.05) | (0.07) | NM | (0.02) | (0.03) | 0.26 |
| **Revenue (mm)** | 377.73 | 410.38 | ▲8.64 | 382.30 | 1565.03 | 1638.87 |

Currency: USD
Consensus as of Jul-30-2018 10:36 AM GMT




**- EPS NORMALIZED -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ4 2017** | - | - | - |
| **FQ1 2018** | (0.02) | (0.05) | NM |
| **FQ2 2018** | (0.05) | (0.07) | NM |

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# Call Participants

**EXECUTIVES**

**James F. Mathias**
*Vice President of Investor Relations*

**James G. Reynolds**
*Chief Financial Officer*

**Ronald Clark Cogburn**
*Chief Executive Officer*

**ANALYSTS**

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

**Dan Dolev**
*Instinet, LLC, Research Division*

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

**Matthew Van Roswell**
*RBC Capital Markets, LLC, Research Division*

**Unknown Analyst**

# Presentation

**Operator**

Good afternoon, ladies and gentlemen, and welcome to the Exela Technologies Second Quarter 2018 Call. My name is Denise, I'll be your host operator on this call. [Operator Instructions] Please note, today's event is being recorded.

I would now like to turn the meeting over to Jim Mathias, Vice President, of Investor Relations. Please go ahead, sir.

**James F. Mathias**
*Vice President of Investor Relations*

Thank you, Denise. Good afternoon, everyone, and welcome to the Exela Technologies' Second Quarter 2018 Conference Call. I'm here today with Ron Cogburn, Exela's Chief Executive Officer; and Jim Reynolds, Chief Financial Officer. Following prepared remarks made by Ron and Jim, we will take your questions.

Today's conference call is being broadcast live via webcast, which is available on the Investor Relations page of Exela's website, www.exela.com. A replay of this call will be available until August 16, 2018. Information to access the replay is listed in today's press release, which is also available on the Investor Relations page of Exela's website.

During today's call, Exela will make certain statements regarding future events and financial performance that may be characterized as forward-looking under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to known and unknown risks and uncertainties and are based on current expectations and assumptions. We undertake no obligations to update any statements to reflect the events that occur after this call, and actual results could differ materially from any forward-looking statements. For more information, please refer to the risk factors discussed in Exela's most recently filed periodic reports on Form 10-K and the Form 10-Q filed with the SEC today, along with the associated press release and the company's other filings with the SEC. Copies are available from the SEC or the Investor Relations page of Exela's website.

During today's call, we will refer to certain non-GAAP financial measures. Reconciliation between GAAP and non-GAAP results we discuss on this call can be found on the Investor Relations page of our website. As a reminder, financial results discussed on today's call reflect pro forma combined company results for the business combination of SourceHOV holdings and Novitex holdings, which closed on July 12, 2017. Please note, the presentation that accompanies this conference call and an investor fact sheet are also accessible on the Investor Relations page of our website.

We will now begin by turning the call over to our CEO, Ron Cogburn. Ron?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Thanks, Jim. Good afternoon, and thanks, everyone, for joining us today. I am pleased to report second quarter revenue grew 17.3% and EBITDA grew 23.8% on a pro forma year-over-year basis. We saw growth across customers and geographies and increasing demand for our services. With approximately 200 customers generating annual revenue over $1 million, backed by strong quarterly results and large contracted backlog, we are reaffirming our outlook for full year 2018, which Jim Reynolds will discuss a bit later in the presentation.

Let's turn to Slide #5. I am pleased to report strong second quarter 2018 results that are highlighted by double-digit revenue growth of 17.3% to $410.4 million, EBITDA growth of 23.8% and adjusted EBITDA growth of 9% to $70.1 million. We are encouraged that 11% of our growth is organic coming from the deals that were sold late last year and early this year. Additionally, not all the revenue expected from these deals has come through yet, we're still ramping up both within existing customers as well as new

logos. The remaining 6% growth is inorganic driven by acquisition, net of divestitures. Cash generation during Q2 was in line with our expectations. And at the end of the quarter, we had approximately $140 million of liquidity, which was up 20% since March 31, 2018. Our spending on capital expenditures remains low at about 1.9% of revenue for the quarter.

Another highlight of Q2 that we are excited about is the fact that Exela was added to both the Russell 2000 and Russell 3000 indices. Inclusion in these indices should further increase our visibility and exposure among our investors. Looking at our shareholder base, we had 91% of institutional holders as of March 31, 2018.

I am very pleased with Exela's Q2 financial performance and hope that the market start recognizing our accomplishments and rewarding our efforts and our results. As an update to our stock buyback program approved by the board late last year, we bought back about 770,000 shares during the second quarter. As we continue to think that we are undervalued, we expect to continue buying back the stock under this program as long as the stock continues to trade at these discounted levels.

Now let's turn to Slide #6, which is about our growth across customers and geographies. With our customer interest increasing and the expanded white space opportunities, our contracted backlog is increasing as well and the mix is favorable, changing in line with the execution of our business strategy. We have a high renewal rate, which further demonstrates our effectiveness in taking our customers on their digital and business transformational journey. With our quarterly results, strong backlog and high renewal rate, we are confident in the top line trajectory of the business going forward.

During the quarter, we added new contracts and statements of work, and now we have 8 large customers, generating annual revenue in excess of $25 million. Importantly, as we grow our presence within our customers, we are maintaining a very diversified revenue base. Our top 150 customers account for 66% of our revenue. Our strategy, which is to provide business process automation services to all of our customers, positions us for long-term growth. We differentiate ourselves by enabling rapid deployment of business process automation using Exela's proprietary technology suite covering robotic and cognitive automation, coupled with domain expertise that we've gathered over more than a decade of delivering BPO services. We make it easy for customers to do business with us by offering hybrid deployment models through our sites or our customer sites or even SaaS.

With our strategy in mind, we are growing across our customer base as well. With approximately 200 customers generating between $1 million and $5 million in annual revenue, we have the right solutions and the platforms to capture these white space opportunities with our land-and-expand strategy which has worked so well over these past many years. One of our business strategies and our goal is to take these 200 customers on their digital and business transformation journey and increase our wallet share. We're making investments in people and technologies to do just that.

Exela is growing across the geographies we operate in as well. So let's talk about Americas first. The 9% growth in Americas was organic driven by the deals sold last year and early this year that are now ramping up. We're also excited about the several pilots executed in the last few quarters that are expected to drive revenue in the future.

Moving on to the rest of the world, especially Europe. The growth of 103% helped us double in size year-over-year. This increase of $33 million in revenue is both organic and inorganic. 65% of the revenue growth in Europe and the rest of the world was due to the recent acquisition of Asterion. The remaining 38% of the revenue growth in Europe and the rest of the world is driven by organic growth.

Now let's turn to Slide #7. We are well positioned with our 3,700 customers spread across diversified industries. We serve leading companies with over 60% of the Fortune 100, and we are well positioned doing business with the top 10 U.S. banks and 120 global banks, 14 of the top 20 U.S. insurance companies and over 50 global insurance companies, the top 5 insurance payers in the U.S. and over 900 health care providers and 4 of the world's 5 largest retail chains. Additionally, we serve the top 5 U.S. telecoms along with more than 40 utilities.

Let's turn to Slide #8. With our customer growth, improving business metrics and growth across diversified industries, we have the team that can deliver this. Over half of our employees are here in North America. We have our 2,000 dedicated employees in IT and technology, supporting our BPA platforms worldwide, and our total global employee count stands at approximately 22,000 strong.

As a direct result of our automation strategy that we can deploy throughout our organization, our headcount declined year-over-year by 7% as you can see in the chart on the right, excluding the additions due to the acquisitions and net of increases due to growth.

Our investments in technology continue to pay off with lower variable cost additions and higher corresponding revenue growth with superior revenue per FTE metric, which differentiates us from our peer group. Our strategy is to drive automation. We provide BPA-powered BPO services both on-site and off-site.

Our view of BPO has evolved from the traditional model. We view on-site BPO as process outsourcing and transform it just as we do off-site processing. We have developed the technology in our BPA suite to provide attended and unattended automation for the process. Using the power of our technology and recognizing the potential with BPA, many of our existing customers are now reanalyzing their on-site BPO business. The interest from customers has broadened, and this also includes interest in our platforms like print shop, digital mailroom, front-office automation and digital lockers.

The results of this strategy puts us in a unique position amongst our peer group. This essentially demonstrates that we are able to grow the revenue faster with a much lower -- or slower variable cost increase. Put in other words, the growth in the revenue exceeds the growth in the variable cost in the form of headcount needed to service the revenue. As a direct result, we expect our revenue per FTE to continue to climb. The strategy drives the growth in revenue per FTE from about $18,000 per FTE a decade ago to over $70,000 per FTE currently. This is a growth and transformation story that we are sharing with our customers at innovation centers in New York, Dallas, Los Angeles as well as other key markets across the globe where our customers can conveniently access them.

Before I turn the call over to Jim, we had a great first half of 2018, and we are comfortable with our outlook and excited with the opportunities we see for the second half.

And now I would like to hand the call over to Jim Reynolds, who will discuss our financial results in greater detail. Jim?

**James G. Reynolds**
*Chief Financial Officer*

Thanks, Ron. Let's turn to Slide 10. We are pleased with our results. Second quarter 2018 revenue increased by 17.3% to $410.4 million compared to pro forma Q2 of 2017. EBITDA increased by 23.8% to $51.3 million compared to pro forma Q2 2017. We continue to convert our savings actions over the quarter into EBITDA. Our adjusted EBITDA increased by 9% to $70.1 million in Q2 of 2018 compared with $64.3 million in Q2 of 2017. This increase in EBITDA was partially offset by duplicate ramp costs incurred that we are no longer able to capitalize in 2018 under ASC 606. This makes our margin to appear weaker during the initial phase of ramp. This decrease is also reflected in our CapEx comparisons year-over-year as there is approximately $2 million more of expense in the P&L in Q2 2018, which would have been historically capitalized.

Margins were also impacted by increased public company cost as we navigate through our first year of SOX compliance, and we have added more staff to the finance and accounting teams. This year, we have also increased our investments in sales and strategy teams, innovation centers and marketing initiatives to drive our top line growth.

Looking at the adjustments to EBITDA. We had a decrease of $6.5 million in transaction-related expenses in Q2 2018 compared to Q2 2017. These costs were incurred as a result of the business combination in July of 2017. Optimization and restructuring expenses were up $2.8 million in Q2 2018 and are part of our plan in delivering $40 million to $45 million in flow-through P&L benefits in 2018. We will continue to identify and invest in achieving these savings.

The total optimization and restructuring expenses have not changed. Year-to-date, we have already incurred $27.5 million. The second half of 2018 and future quarter amounts will depend on the rate of conversion of these savings. In the third bucket, other charges, on a pro forma basis in Q2 of 2017, there were management fees of $5.4 million, which were terminated as part of the business combination. The charges in Q2 of 2018 are noncash expenses related to premerger equity awards that are still vesting. The last item relates to a small gain from our interest rate swap on the term loan that we entered into in January of 2018.

To summarize our Q2 and half-year performance, we have ramped up a few big deals won late in 2017 and early this year, which is evident in our top line growth. We are expecting the big deals will migrate towards normal margins in the next few quarters along with the savings actions being executed in parallel. This will give us the gross margin lift that, in turn, will translate into higher EBITDA.

Moving to Slide 11. On an accounting segment basis, Information and Transaction Processing Solutions, or what we call ITPS revenue, was $330.1 million and grew 22.1% year-over-year. The 22.1% increase in ITPS was driven by increased volumes and expansion of services within new and existing customers. Our recent tuck-in acquisition added 7.7% of the growth in ITPS during the quarter.

Revenue in our Healthcare Solutions segment was $56.3 million compared with $58.1 million in Q2 of 2018 or a slight decline of 3%. The main reason for the decline was due to lower volumes from a single customer who lost a contract from one of its customers. We expect Healthcare Solutions to finish fiscal year 2018 higher than fiscal year 2017 based on our contracted revenue.

Finally, in our third reporting segment, Legal and Loss Prevention Services, or Legal, our revenue was $23.9 million, up approximately 10.9% year-over-year compared with Q2 of 2017. Revenue for this segment is event-driven and in line with expectations. We would have had a larger increase in Q2 of 2018 but we sold a small noncore subsidiary in early Q2 that reduced the revenue growth by 2.5%.

On the next slide, 12. We reported operating income of $11.9 million, an increase of $1.9 million on a year-over-year basis. Our operating income results were driven by revenue growth offset by higher cost of revenue, which was driven by the impact of ramp-ups of large contracts offset by flow-through cost savings initiatives and lower SG&A. These large contracts typically have very low margin in the initial phase but, as they reach steady-state, margins improve and expand over time.

SG&A expense declined 7.1% year-over-year due to the flow-through of cost savings initiatives offset by continued investments in our growth strategy and public company costs. Our operating income was also negatively impacted by a $5.3 million increase in our depreciation and amortization expense due to an accelerated write-off of legacy tradenames. This impact will continue during the remainder of 2018.

Exela's net loss for the second quarter improved by $2.7 million on a year-over-year basis to a net loss of $25.2 million. As a reminder, we have a sizable amount of net operating loss carryforwards available to offset pretax income. Cash taxes we paid totaled only $2.8 million during the quarter.

Moving to Slide 13. We generated $47.4 million of net cash during the quarter. We ended the second quarter with a cash balance of approximately $86.9 million, an increase from the $39.4 million at the end of the first quarter of 2018. Driving the increase in cash was $68.3 million of operating cash flow. This increase was reduced by $7.4 million in CapEx, $3.1 million in net cash spent for M&A, $3.5 million cash usage for our share buyback program and $6.4 million of cash for principal payments on debt.

Now turning to Slide 14. During the second quarter of 2018, our CapEx was $7.7 million. Through the first half of 2018, our capital expenditures totaled $16.1 million or 2% of revenue. Our current level of CapEx investment is below our guidance for 2018 of around 3%. The company had made significant investments in historical periods, and this will continue to benefit Exela as we increase our utilization of our infrastructure. In addition, in 2018, the company has reduced the amount of internal cost historically capitalized.

Turning to the capital structure on Slide 15. On June 30, 2018, total liquidity was $139.7 million, and net debt was $1.34 billion. We had global cash of $60.3 million, excluding restricted cash per our credit

agreement and an undrawn $100 million revolving credit facility, of which $20.6 million was set aside for standby letters of credit.

Also during the second quarter, we purchased 768,693 shares of Exela common stock for about $3.5 million. Since we launched the buyback in Q4 of 2017, we have purchased 1,043,497 shares. We will continue to do so under our share buyback program given our view that our shares are significantly undervalued.

From a subsequent event perspective, on July 12, 2018, we repriced our term loan from L plus 750 to L plus 650. We added an incremental $30 million in connection with the repricing. We anticipate using the funds for general corporate purposes including small, opportunistic tuck-in acquisitions. As we continue to deliver results, our plan is to reprice our term loan over the next few years to lower our cost of debt.

On Slide 16. Based on our strong second quarter results, we are reaffirming our 2018 and long-term guidance. Our current 2018 business outlook is as follows. We expect full year revenue to be between $1.55 billion to $1.58 billion. This is well achievable given our first half results in contracted revenue. We expect adjusted EBITDA in the range of $295 million to $310 million. This represents a year-over-year growth of between 20% and 26% on a pro forma basis. We expect further adjusted EBITDA in the range of $330 million to $355 million. Our guidance includes delivering $40 million to $45 million in savings during 2018 with the remainder beyond.

We are very comfortable with our long-term guidance. Our long-term growth was established as part of the initial merger, and we were cautious being a new public company. Given our strong backlog and top line results to date, we will be updating in a future period. As of July 12, 2018, Exela also completed our first year as a public company. We are pleased with the results to date, and we'll continue to execute on our strategy. Thank you.
And with that, operator, I would like to open up the call for questions.

# Question and Answer

**Operator**

[Operator Instructions] And the first question today will come from Joseph Foresi of Cantor Fitzgerald.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

I wonder if we could start talking about what might have been onetime in the cost structure this quarter, particularly in the gross margins. I know that you had a slide in there that showed your sort of puts and takes, but what can we consider to be, I guess, onetime in nature in 2Q?

**James G. Reynolds**
*Chief Financial Officer*

So hey, Joe, thanks for your call. I think that if you take a look at kind of a onetime impact during Q2, it was the capitalization we had done historically before 606 and some of the duplicate ramp cost that impacted us from a cost of sales perspective. In addition, during the quarter, we had incremental biz op, we don't break that between SG&A and cost of sales at this point in time. Really, as a public company, we're really focusing on driving the EBITDA margins and converting, really, adjustments -- or adjusted EBITDA to GAAP EBITDA.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

Got it. And so about how much -- what -- can you wrap a number around those onetime charges in the quarter? And I assume you expect them to fall off in 3Q.

**James G. Reynolds**
*Chief Financial Officer*

Yes. The onetime charges, we will continue to have some of the biz op and restructuring on a go-forward basis. We -- as long as we don't do any tuck-in acquisitions, transaction cost should be minimal to none. The noncash charges will continue with respect to the restricted stock units that vest over the next year. Those will be the major buckets on a go-forward basis. I think that we've done a good job of minimizing the amount of adjustments as we convert the savings into GAAP.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

Got it. And maybe you could talk about what the next 2 quarters look like because, with your annual guidance, that would imply a considerable ramp in the margins over the next 2 quarters. So what do those look like from, I guess, a restructuring perspective? And how should we expect those margins to improve? What are your levers there?

**James G. Reynolds**
*Chief Financial Officer*

Yes. So if you look, Joe, we've ramped some large customer contracts which incur significant costs and sometimes duplicate costs. As we move further out into the contracts, the ramp becomes steady-state, so those margins will improve over time. For the second half of the year, if you look at where we are year-to-date on an adjusted EBITDA, we're going to have a significant increase to hit our guidance, which we're very comfortable with.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

Okay. And then just a final question. Maybe could you just give us some of the -- it sounds like you're expecting the ramps in those contracts to help you hit that guidance. But is there anything else -- maybe you could just give us the different levers that get you to and give you the confidence in the back half of the year margins.

**James G. Reynolds**
*Chief Financial Officer*

Yes. So if you look at really the second half of the year, we've made investments this year early on. And we're looking, as we move forward, to have significant savings flow through at the back half of the year. In addition, typically, the back half, we see an uptick in our revenue as these contracts get steady-state. So a combination of the savings and the incremental revenue growth with less ramp cost should drive the margins.

**Operator**

The next question will be from Dan Perlin of RBC Capital Markets.

**Matthew Van Roswell**
*RBC Capital Markets, LLC, Research Division*

Yes, it's actually Matt Roswell sitting in for Dan. I guess could you talk briefly about sort of the demand environment across the various industries, like banking versus insurance? And as part of that, I think you've generally talked about your larger clients growing faster, and I was just checking to see if that's still the case.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Yes. You hit it right on the head. More than 50% of our revenue comes from health care, banking, financial services and insurance. And as we see the opportunity to roll out the opportunity to do business process automation to our customers, we're beginning to see those customers engage with us in the pilots that we've talked about in the past, but we're also seeing new opportunities. And these are opportunities between the $1 million and $5 million customers. Those large group of customers, that 200 I mentioned, we're seeing that be able to provide us with a runway to accelerate our growth in a nice fashion.

**James G. Reynolds**
*Chief Financial Officer*

Matt, to add to that, with the $1 million to $5 million customers, I mean we have 200 of them, right, there's a lot of white space because typically those are 1 or 2 statements of work we have between the white space and everything else we're doing. Even if we just double those customers, there's a significant amount of upside in revenue.

**Matthew Van Roswell**
*RBC Capital Markets, LLC, Research Division*

Okay. And then I guess, in terms of sort of industry demand, are you seeing any major differences between them?

**Ronald Clark Cogburn**
*Chief Executive Officer*

No. The demand in the industries continue to be strong. Like we said banking, financial services, health care, are probably the strongest industry with the industry tailwinds that we've talked about in the past that are 6% to 8% CAGR between now and 2020. So we're participating in that movement as well.

**Matthew Van Roswell**
*RBC Capital Markets, LLC, Research Division*

Okay. And then sort of a housekeeping question, was there any ASC 606 revenue impacts? You mentioned the gross margin and some of the capitalization and contract cost, but I was wondering on the revenue side, whether you ran into anything.

**James G. Reynolds**
*Chief Financial Officer*

When we adopted 606 back at the beginning of the year, there was less than $1 million impact on revenue.

**Operator**

The next question will be from Dan Dolev of Nomura Instinet.

**Dan Dolev**
*Instinet, LLC, Research Division*

I saw that most of the great organic growth, I think you called out 11%. I saw that a lot of the growth came from Europe and rest of the world. Is that -- did the organic growth include the FX tailwind? Or is that net of the FX tailwind?

**James G. Reynolds**
*Chief Financial Officer*

That includes the FX tailwind. So we didn't report on a constant currency basis. So if you take a look, currency probably hurt us by probably a few million in the top line over in Europe, but we did see growth on an organic basis in our Northern European region during the quarter, which we were very pleased with. So we see -- we're growing very well organically, and the inorganic acquisition will give us just a little bit bigger diversity and less concentration in the U.S. because one of our goals is to minimize concentration on a customer level, and it's also on a geographical level. We're still well focused in the U.S. with the acquisition we'll have, maybe 15% top line thereabouts from Europe and the rest of the world.

**Dan Dolev**
*Instinet, LLC, Research Division*

Got it. If I understand it correctly, you said the currency hurt you. I thought the currency was a tailwind in the second quarter.

**James G. Reynolds**
*Chief Financial Officer*

No. Sorry, you're correct. I was thinking quarter-over-quarter, but it was approximately the same amount.

**Dan Dolev**
*Instinet, LLC, Research Division*

Got it, okay. And then regarding the guidance, I mean, obviously, you had a very strong revenue quarter and a very strong growth ex M&A, I'd say, right, including FX? What is the reason for not raising the revenue guidance? Is that just conservatism? Are you worried about the FX headwind coming on? Maybe you can give us some color on that.

**James G. Reynolds**
*Chief Financial Officer*

We feel really good about the backlog and the contracted revenue we have. We're pleased with the growth this year. On an inorganic basis, I think that we were looking at doing that but, as time came on, we decided we were just going to keep it the same and take a look at it in future quarters. As we hit 2019, we were more focused on really having a great year in 2018 and then looking at what we can do to the guidance on a go-forward basis because, obviously, we're growing well above our initial guidance.

**Dan Dolev**
*Instinet, LLC, Research Division*

Got it, understood. And maybe one last question, sorry, to come back to that. Can you give us maybe the organic growth equivalent to that 11% number in the first quarter?

**James G. Reynolds**
*Chief Financial Officer*

It was all organic growth in the first quarter, so I would have to -- there were no acquisitions.

**Dan Dolev**
*Instinet, LLC, Research Division*

Got it. Yes, I meant more from a FX perspective, but we can do it offline, too, if that's fine.

**James G. Reynolds**
*Chief Financial Officer*

Yes, you can circle back, I'll give you the detail.

**Operator**

[Operator Instructions] The next question will be from [ David Fith ] of Citi.

**Unknown Analyst**

Can you talk a little bit -- we're all walking through this investment in gross profit that will roll through the quarters. And maybe we can talk something about the spike that you did have in the second quarter. So how does trade through? Is that a seasonal pattern? Is it something that you got some early ramp quickly and there are some investment dollars? Because, look, I think people are still trying to -- it looks like given your full year guidance that sales will decline a little bit sequentially, but margins look like they have to improve. And so is that mix? Or is that -- is it just a realization of profitability on it?

**James G. Reynolds**
*Chief Financial Officer*

So I think we feel really good with our revenue guidance for the 2018. I think that we had great growth in the first half of the year, and we've been ramping up customers. So typically we anticipate that, that revenue trajectory will remain. But we did not adjust our top line guidance for 2018. So we feel really good as to where things are heading for the year.

**Unknown Analyst**

Fair enough. And on the M&A pipeline, are there many things that you're looking at right now?

**James G. Reynolds**
*Chief Financial Officer*

What I would say with respect to the M&A, this industry is very fragmented, there is a lot of activity in the market for small -- we probably see something every day like everybody else. But we're very, very selective when we look at anything to make sure it matches up with our go-forward business strategy and that it is accretive. Otherwise, we won't do it or even look at it.

**Unknown Analyst**

And the cash flow for the quarter was very strong. You have interest payments, semi-annual interest payments that will impact you. Is there any -- was there anything unusual in the second quarter cash flow that you want to talk about? Is that just pure profitability coming out of the business?

**James G. Reynolds**
*Chief Financial Officer*

No, I mean, I think if you look at it, Q1 was impacted, obviously, by the large interest payment. We did reprice the loan, which will help us a little bit going forward. But there was -- it's typical when we operate

the business, generate the savings, we generate a lot of cash. There is great flow-through margin from a cash flow perspective.

**Operator**

The next question will come from [ Brad Ehlert ] with RBC.

**Unknown Analyst**

Just a couple of questions I had. One was related to the Asterion acquisition. I believe the cash flow savings, it shows there was only cash paid of just over $4 million for it. Is there more to come on that? Or are there other sort of compensations for that? I mean because it looked like in some of the press releases that were released by the parent company, it seemed like the acquisition was more in the range of like $18 million. Is there -- are we seeing that right? Or is there anything else to come on that one?

**James G. Reynolds**
*Chief Financial Officer*

No. There's nothing else to come on that. We're done. I mean the reality...

**Unknown Analyst**

So it was really a $4 million acquisition?

**James G. Reynolds**
*Chief Financial Officer*

That's what the cash flow shows, yes.

**Unknown Analyst**

Great. And the impact for the quarter on revenues for Asterion, is that -- was that about just about $4.5 million kind of what you can back out?

**James G. Reynolds**
*Chief Financial Officer*

From a top line perspective?

**Unknown Analyst**

Yes.

**James G. Reynolds**
*Chief Financial Officer*

From the top line it was about $18.6 million.

**Unknown Analyst**

For the quarter?

**James G. Reynolds**
*Chief Financial Officer*

For the quarter.

**Unknown Analyst**

Okay. And I have 1 question on -- it seemed like there was a working cap swing between the first quarter and second quarter mostly in accounts payable. Was there anything to sort of take away from that?

**James G. Reynolds**
*Chief Financial Officer*

That's where the accrued interest shows up typically. So that's kind of what's driving that since its payable in January and July of each year.

**Unknown Analyst**

Okay. So nothing more to take away from that.

**James G. Reynolds**
*Chief Financial Officer*

No.

**Unknown Analyst**

And then -- and last on the -- with the Asterion acquisition and sort of the trend that you're seeing with the cost savings, when you talk about hitting the guidance of $40 million to $45 million for this year still and then further adjustments coming beyond it, do you still -- do you have any sort of level that we can sort of model in of what we think cost savings could be in '19?

**James G. Reynolds**
*Chief Financial Officer*

So I mean I think on our investor fact sheet, we have a total of about $80 million -- $88 million, $87.8 million, of which the $40 million to $45 million we're saying in our guidance to come through this year and the remainder beyond.

**Unknown Analyst**

Okay. And then just the last one, and I'll turn it over. In the revenue commentary you put in the press release, you talked about, under the health care services solutions, that there was a contract loss. Do you -- can you give any more color on that?

**James G. Reynolds**
*Chief Financial Officer*

Yes, sure. We have, obviously, large customers, and they have customers. So as a result of them losing one of their customers, we lost some volume in one of our statements of work. So it's nothing we did. But because they had lost the business, we were impacted by it. But we feel really good about our health care and where we're positioned within the market based on our contracted revenue.

**Unknown Analyst**

Right. And that's more of a 2 -- a second half business anyways.

**James G. Reynolds**
*Chief Financial Officer*

Yes.

**Operator**

The next question will be from Arun Seshadri of Crédit Suisse.

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

Just a couple from me. Good to see the revenue growth, but I just wanted to get a sense for LLPS. We saw that grow year-over-year. Is there sort of new business that you're starting to sort of ramp again? And just any color there would be helpful.

**James G. Reynolds**
*Chief Financial Officer*

So that's really an event-driven business, and we picked up some nice business in Q2. So a lot of that is really event-driven. And then when we did the deal with Enterprise Solutions, they have a great legal base that we haven't really sold into. So I think that as part of having that footprint now and a lot of white space, we'll see that there's a lot of opportunities to convert within that legal space.

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

Got it, that's good to hear. And then I just wanted to understand, as far as the sequential progression goes, your revenue kind of grew nicely on a sequential basis between $93 million to $410 million. But it looks like both gross profit and, I guess, cash EBITDA both declined sequentially. Just wanted to understand, is there any way you could parse sort of why that's happening and what the impact of the Asterion business was on a margin basis?

**James G. Reynolds**
*Chief Financial Officer*

Yes. So we haven't really broken it down between Asterion but, obviously, with the amount we paid, Asterion did not have a significant margin, if you know what I mean. But it was really strategic to us to bring that back and expand our European operations. With respect to the rest of the business, when you're ramping up these large customers, you take the working capital hit first, and then the second is you get impacted by the duplicate cost. As you're taking on employees and/or facilities, sometimes you have duplicate cost. And then over time, as you're ramping up that revenue, it will expand, and you'll start to take out those costs. Because we had great success last year and into this year, we had a large amount of revenue come through at very little margin. So as we ramp up, you're going to continue to see the revenue grow, those costs come out, and we will expand. Usually, revenue comes first and then -- on these large contracts, and then the margins will expand over time. We're very pleased though with the top line growth.

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

Got it. That's very helpful. Last question from me is just wanted to look at -- so if we look at sort of EBITDA and the difference between EBITDA and adjusted EBITDA, I think it was like $56 million and $70 million for Q1, it was about sort of, I guess, almost $14 million of delta between EBITDA and adjusted EBITDA. This quarter that delta widened a little bit to almost $19 million. How should we see that progress towards the balance of the year?

**James G. Reynolds**
*Chief Financial Officer*

Yes. So as we discussed early in the year, we -- our job is to minimize the amount of adjustments. It's primarily driven by our biz op and restructuring, which helps us deliver the savings. I think the good news is you've seen the conversion and the significant growth within what we'll call GAAP EBITDA. So as we continue to convert the savings, our GAAP EBITDA will expand, and adjusted EBITDA will -- and the percentage of adjustments will shrink in the future.

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

Got it. So you do expect some pretty meaningful growth in GAAP EBITDA for the next couple of quarters, it sounds like.

**James G. Reynolds**
*Chief Financial Officer*

Yes. I mean that's -- we only comment really on the adjusted EBITDA at this point because we're driving those savings through biz op. So we if we try and accelerate savings, GAAP EBITDA may be impacted a little bit, if you know what I mean.

**Operator**

And ladies and gentlemen, this will conclude our question-and-answer session. I would like to hand the conference back over to CEO Ron Cogburn for any closing remarks.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Yes, thanks, everyone. We really appreciate you participating in the call today. We appreciate the questions. We look forward to speaking to everyone again next quarter. Thank you.

**Operator**
Thank you, sir. Ladies and gentlemen, the conference has concluded. Thank you for attending today's presentation. You may now disconnect your lines.

# Exhibit 6

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2018**
**Or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to .**
**Commission file number: 001-36788**

# EXELA TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Delaware**<br>(State of or other Jurisdiction Incorporation or Organization) | **47-1347291**<br>(I.R.S. Employer Identification No.) |
| **2701 E. Grauwyler Rd.**<br>**Irving, TX**<br>(Address of Principal Executive Offices) | **75061**<br>(Zip Code) |

Registrant's Telephone Number, Including Area Code: **(844) 935-2832**

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, Par Value $0.0001 per share | The Nasdaq Stock Market LLC |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐ Smaller Reporting Company ☐ Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 5, 2018, the registrant had 151,648,643 shares of Common Stock outstanding.

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**Exela Technologies, Inc.**
**Form 10-Q**
**For the quarterly period ended September 30, 2018**
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**PART I—FINANCIAL INFORMATION**

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Balance Sheets**
**As of September 30, 2018 and December 31, 2017**
*(in thousands of United States dollars except share and per share amounts)*

| | September 30, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 40,692 | $ 39,000 |
| Restricted cash | 8,955 | 42,489 |
| Accounts receivable, net of allowance for doubtful accounts of $4,427 and $3,725, respectively | 253,986 | 229,704 |
| Inventories, net | 16,122 | 11,922 |
| Prepaid expenses and other current assets | 26,933 | 24,596 |
| **Total current assets** | **346,688** | **347,711** |
| Property, plant and equipment, net | 131,156 | 132,908 |
| Goodwill | 749,762 | 747,325 |
| Intangible assets, net | 398,280 | 464,984 |
| Deferred income tax assets | 14,810 | 9,019 |
| Other noncurrent assets | 21,650 | 12,891 |
| **Total assets** | **$ 1,662,346** | **$ 1,714,838** |
| **Liabilities and Stockholders' Deficit** | | |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable | $ 90,673 | $ 81,263 |
| Related party payables | 10,756 | 14,445 |
| Income tax payable | 5,422 | 3,612 |
| Accrued liabilities | 41,397 | 49,383 |
| Accrued compensation and benefits | 54,975 | 46,925 |
| Accrued interest | 23,845 | 55,102 |
| Customer deposits | 39,419 | 31,656 |
| Deferred revenue | 18,084 | 12,709 |
| Obligation for claim payment | 52,889 | 42,489 |
| Current portion of capital lease obligations | 15,926 | 15,611 |
| Current portion of long-term debt | 20,062 | 20,565 |
| **Total current liabilities** | **373,448** | **373,760** |
| Long-term debt, net of current maturities | 1,307,884 | 1,276,094 |
| Capital lease obligations, net of current maturities | 22,945 | 25,958 |
| Pension liability | 30,376 | 25,496 |
| Deferred income tax liabilities | 2,115 | 5,362 |
| Long-term income tax liability | 3,470 | 3,470 |
| Other long-term liabilities | 15,307 | 14,704 |
| **Total liabilities** | **$ 1,755,545** | **$ 1,724,844** |
| Commitments and Contingencies (Note 9) | | |
| **Stockholders' deficit** | | |
| Common stock, par value of $0.0001 per share; 1,600,000,000 shares authorized; 152,692,140 shares issued and 151,648,643 outstanding at September 30, 2018 and 150,578,451 shares issued and 150,529,151 outstanding at December 31, 2017 | $ 15 | $ 15 |
| Preferred stock, par value of $0.0001 per share; 20,000,000 shares authorized; 4,569,233 shares issued and outstanding at September 30, 2018 and 6,194,233 shares issued and outstanding at December 31, 2017 | 1 | 1 |
| Additional paid in capital | 482,018 | 482,018 |
| Less:common stock held in treasury, at cost; 1,043,497 shares at September 30, 2018 and 49,300 shares at December 31, 2017 | (5,148) | (249) |
| Equity based compensation | 38,601 | 34,085 |
| Accumulated deficit | (594,162) | (514,628) |
| **Accumulated other comprehensive loss:** | | |
| Foreign currency translation adjustment | (3,833) | (194) |
| Unrealized pension actuarial losses, net of tax | (10,691) | (11,054) |
| Total accumulated other comprehensive loss | (14,524) | (11,248) |
| **Total stockholders' deficit** | **(93,199)** | **(10,006)** |
| **Total liabilities and stockholders' deficit** | **$ 1,662,346** | **$ 1,714,838** |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Operations**
**For the Three and Nine Months ended September 30, 2018 and 2017**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Three Months ended September 30, 2018 | Three Months ended September 30, 2017 | Nine Months ended September 30, 2018 | Nine Months ended September 30, 2017 |
|---|---|---|---|---|
| Revenue | $ 383,030 | $ 338,393 | $ 1,186,579 | $ 766,035 |
| Cost of revenue (exclusive of depreciation and amortization) | 295,936 | 255,116 | 903,682 | 539,242 |
| Selling, general and administrative expenses | 44,913 | 102,048 | 137,231 | 172,626 |
| Depreciation and amortization | 35,041 | 28,052 | 109,428 | 70,779 |
| Related party expense | 759 | 26,892 | 3,267 | 31,733 |
| **Operating income (loss)** | 6,381 | (73,715) | 32,971 | (48,345) |
| **Other expense (income), net:** | | | | |
| Interest expense, net | 38,339 | 37,652 | 114,883 | 91,740 |
| Loss on extinguishment of debt | 1,067 | 35,512 | 1,067 | 35,512 |
| Sundry expense (income), net | (2,571) | 563 | (4,961) | 2,960 |
| Other income, net | (781) | — | (4,813) | — |
| **Net loss before income taxes** | (29,673) | (147,442) | (73,205) | (178,557) |
| Income tax benefit (expense) | 733 | 37,002 | (4,911) | 32,924 |
| **Net loss** | (28,940) | (110,440) | (78,116) | (145,633) |
| Dividend equivalent on Series A Preferred Stock related to beneficial conversion feature | — | (16,375) | — | (16,375) |
| Cumulative dividends for Series A Preferred Stock | (914) | (1,225) | (2,742) | (1,225) |
| **Net loss attributable to common stockholders** | $ (29,854) | $ (128,040) | $ (80,858) | $ (163,233) |
| Net loss per share - basic and diluted | $ (0.20) | $ (2.08) | $ (0.53) | $ (3.98) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Comprehensive Loss**
**For the Three and Nine Months ended September 30, 2018 and 2017**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Three Months ended September 30, 2018 | Three Months ended September 30, 2017 | Nine Months ended September 30, 2018 | Nine Months ended September 30, 2017 |
|---|---|---|---|---|
| Net loss | $ (28,940) | $ (110,440) | $ (78,116) | $ (145,633) |
| **Other comprehensive income (loss), net of tax:** | | | | |
| Foreign currency translation adjustments | (2,492) | 233 | (3,639) | 1,256 |
| Unrealized pension actuarial gains (losses), net of tax | 140 | (536) | 363 | (1,500) |
| Comprehensive loss | $ (31,292) | $ (110,743) | $ (81,392) | $ (145,877) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Stockholders' Deficit**
**For the Nine Months ended September 30, 2018 and 2017**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Common Stock | | Preferred Stock | | Treasury Stock | | Additional Paid-in | Equity-based | Accumulated Other Comprehensive Income (Loss) | | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Capital | Compensation | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | Deficit | Deficit |
| Balances at December 31, 2016, effect of reverse acquisition (refer to Note 4) | 64,024,557 | $ 6 | — | $ — | — | $ — | $ (57,395) | $ 27,342 | $ (3,547) | $ (12,339) | $ (293,968) | $ (339,901) |
| Net loss January 1 to September 30, 2017 | | | | | | | | | | | (145,633) | (145,633) |
| Equity-based compensation | | | | | | | | 4,446 | | | | 4,446 |
| Foreign currency translation adjustment | | | | | | | | | 1,256 | | | 1,256 |
| Net realized pension actuarial gains, net of tax | | | | | | | | | | (1,500) | | (1,500) |
| Merger recapitalization | 16,575,443 | 2 | | | | | 20,546 | | | | | 20,548 |
| Shares issued to acquire Novitex (refer to Note 3) | 30,600,000 | 3 | | | | | 244,797 | | | | | 244,800 |
| Issuance/Conversion of Quinpario shares | 12,093,331 | 1 | | | | | 22,358 | | | | | 22,359 |
| Sale of common shares at July 12, 2017 | 18,757,942 | 3 | | | | | 130,860 | | | | | 130,863 |
| Issuance of Series A Preferred Stock | | | 9,194,233 | 1 | | | 73,553 | | | | | 73,554 |
| Shares issued for advisory services and underwriting fees | 3,609,375 | | | | | | 28,573 | | | | | 28,573 |
| Conversion of Series A Preferred Stock to common shares | 3,667,803 | | (3,000,000) | | | | | | | | | — |
| Shares issued for HandsOn Global Management contract termination fee | 1,250,000 | | | | | | 10,000 | | | | | 10,000 |
| Equity issuance costs | | | | | | | (7,649) | | | | | (7,649) |
| Adjustment for beneficial conversion feature of Series A preferred stock (refer to Note 2) | | | | | | | 16,375 | | | | (16,375) | — |
| Balances at September 30, 2017 | 150,578,451 | $ 15 | 6,194,233 | $ 1 | — | $ — | $ 482,018 | $ 31,788 | $ (2,291) | $ (13,839) | $ (455,976) | $ 41,716 |

| | Common Stock | | Preferred Stock | | Treasury Stock | | Additional Paid-in | Equity-based | Accumulated Other Comprehensive Income (Loss) | | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Capital | Compensation | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | Deficit | Deficit |
| Balances at December 31, 2017 | 150,529,151 | $ 15 | 6,194,233 | $ 1 | 49,300 | $ (249) | $ 482,018 | $ 34,085 | $ (194) | $ (11,054) | $ (514,628) | $ (10,006) |
| Implementation of ASU 2014-09 (Note 2) | | | | | | | | | | | (1,418) | (1,418) |
| Net loss January 1 to September 30, 2018 | | | | | | | | | | | (78,116) | (78,116) |
| Equity-based compensation | | | | | | | | 4,260 | | | | 4,260 |
| Foreign currency translation adjustment | | | | | | | | | (3,639) | | | (3,639) |
| Net realized pension actuarial gains, net of tax | | | | | | | | | | 363 | | 363 |
| Stock options exercised | 126,922 | | | | | | | 256 | | | | 256 |
| Preferred shares converted to common | 1,986,767 | | (1,625,000) | | | | | | | | | — |
| Shares Repurchased | (994,197) | | | | 994,197 | (4,899) | | | | | | (4,899) |
| Balances at September 30, 2018 | 151,648,643 | $ 15 | 4,569,233 | $ 1 | 1,043,497 | $ (5,148) | $ 482,018 | $ 38,601 | $ (3,833) | $ (10,691) | $ (594,162) | $ (93,199) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statement of Cash Flows**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Nine Months ended September 30, 2018 | Nine Months ended September 30, 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss | $ (78,116) | $ (145,633) |
| Adjustments to reconcile net loss | | |
| Depreciation and amortization | 109,428 | 70,779 |
| Fees paid in stock | — | 23,875 |
| HGM Contract Termination Fee paid in stock | — | 10,000 |
| Original issue discount and debt issuance cost amortization | 8,062 | 9,684 |
| Provision (recovery) for doubtful accounts | 2,470 | 451 |
| Deferred income tax benefit | (3,689) | (37,186) |
| Share-based compensation expense | 4,516 | 4,446 |
| Foreign currency remeasurement | (2,040) | 777 |
| Gain on sale of Meridian | — | (588) |
| Loss on sale of assets | 1,835 | 508 |
| Fair value adjustment for interest rate swap | (5,456) | — |
| Change in operating assets and liabilities, net of effect from acquisitions | | |
| Accounts receivable | (6,374) | (2,784) |
| Prepaid expenses and other assets | (5,770) | 189 |
| Accounts payable and accrued liabilities | (23,457) | 48,745**(1)** |
| Related party payables | (3,689) | 4,936 |
| **Net cash used in operating activities** | (2,280) | (11,801)**(1)** |
| **Cash flows from investing activities** | | |
| Purchases of property, plant and equipment | (14,077) | (7,001) |
| Additions to internally developed software | (3,080) | (6,348) |
| Additions to outsourcing contracts | (5,427) | (8,574) |
| Proceeds from sale of Meridian | — | 4,582 |
| Cash acquired in Quinpario reverse merger | — | 91 |
| Cash paid in acquisition, net of cash received | (6,513) | (423,428) |
| Proceeds on sale of assets | 1,095 | 11 |
| **Net cash used in investing activities** | (28,002) | (440,667) |
| **Cash flows from financing activities** | | |
| Change in bank overdraft | — | (210) |
| Loss on extinguishment of debt | 1,067 | 35,512**(2)** |
| Proceeds from issuance of stock | — | 231,448 |
| Repurchases of common stock | (4,899) | — |
| Proceeds from financing obligations | 3,068 | 3,040 |
| Contribution from shareholders | — | 20,548 |
| Proceeds from credit facility | 30,000 | 1,320,500 |
| Retirement of previous credit facilities | — | (1,055,736) |
| Cash paid for debt issuance costs and debt discounts | (1,094) | (39,837) |
| Cash paid for equity issue costs | (7,500) | (149) |
| Borrowings from revolver and swing-line loan | 30,000 | 72,600 |
| Repayments from revolver and swing line loan | (30,000) | (72,500) |
| Principal payments on long-term obligations | (21,647) | (32,647) |
| **Net cash provided by (used in) financing activities** | (1,005) | 482,569 |
| Effect of exchange rates on cash | (554) | 335 |
| **Net increase (decrease) in cash and cash equivalents** | (31,842) | 30,436**(1)** |
| Cash, restricted cash, and cash equivalents | | |
| Beginning of period | 81,489 | 34,253**(1)** |
| End of period | $ 49,647 | $ 64,689**(1)** |
| **Supplemental cash flow data:** | | |
| Income tax payments, net of refunds received | $ 5,296 | $ 2,673 |
| Interest paid | 136,396 | 60,347 |
| **Noncash investing and financing activities:** | | |
| Assets acquired through capital lease arrangements | 9,318 | 2,080 |
| Leasehold improvements funded by lessor | 1,565 | 74 |
| Issuance of common stock as consideration for Novitex | — | 244,800 |
| Accrued capital expenditures | 1,994 | 3,512 |
| Accretion of dividend equivalents | — | 16,375 |

Note: Amounts may not foot due to rounding.

**(1)** Balances for these items differ from previously reported balances due to the adoption of ASU no. 2016-18, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Topic 230),* see Note 2.

**(2)** Exela reclassified 'Loss on extinguishment of debt' from operating to financing activities due to the adoption of ASU no. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments,* see Note 2.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Notes to the Condensed Consolidated Financial Statements**
*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*
(Unaudited)

**1. General**

These condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements as of and for the year ended December 31, 2017 included in the Exela Technologies, Inc. (the "Company," "Exela," "we," "our" or "us") annual report on Form 10-K for such period.

The accompanying condensed consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America ("GAAP") and with the instructions to Form 10-Q and Rule 10-01 of Securities and Exchange Commission ("SEC") Regulation S-X as they apply to interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. These accounting principles require us to use estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from our estimates.

The condensed consolidated financial statements are unaudited, but in our opinion include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim period. The interim financial results are not necessarily indicative of results that may be expected for any other interim period or the fiscal year.

**Net Loss per Share**

Earnings per share ("EPS") is computed by dividing net loss available to holders of the Company's Common Stock by the weighted average number of shares of Common Stock outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock, using the more dilutive of the two-class method or if-converted method in periods of earnings. The two-class method is an earnings allocation method that determines earnings per share for Common Stock and participating securities. As the Company experienced net losses for the periods presented, the impact of the Company's Series A Convertible Preferred Stock ("Series A Preferred Stock") was calculated based on the if-converted method. Diluted EPS excludes all dilutive potential of shares of Common Stock if their effect is anti-dilutive.

For the three and nine months ended September 30, 2018, outstanding shares of the Series A Preferred Stock, if converted would have resulted in an additional 5,586,344 shares of Common Stock outstanding, but were not included in the computation of diluted loss per share as their effects were anti-dilutive.

The Company was originally incorporated July 12, 2017 as a special purpose acquisition company under the name Quinpario Acquisition Corp 2 ("Quinpario"). The Company has not included the effect of 35,000,000 warrants sold in the Quinpario Initial Public Offering ("IPO") in the calculation of net income (loss) per share. Warrants are considered anti-dilutive and excluded when the exercise price exceeds the average market value of the Company's Common Stock price during the applicable period.

| | Three Months ended September 30, | | Nine Months ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net loss attributable to common stockholders (A) | $ (29,854) | $ (128,040) | $ (80,858) | $ (163,233) |
| Weighted average common shares outstanding - basic and diluted (B) | 151,663,670 | 61,584,175 | 152,010,290 | 41,018,724 |
| **Loss Per Share:** | | | | |
| Basic and diluted (A/B) | $ (0.20) | $ (2.08) | $ (0.53) | $ (3.98) |

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**2. Recently Adopted Accounting Pronouncements**

Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") no. 2014-09, *Revenue from Contracts with Customers (ASC 606)*. Under ASU 2014-09, revenue is recognized based on a five-step model. The core principle of the model is that revenue will be recognized when the transfer of promised goods or services to customers is made in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted this standard using the modified retrospective approach applied to those contracts that were not completed as of January 1, 2018. The results for the reporting period beginning after January 1, 2018 are presented in accordance with the new standard, although historical information has not been restated and continues to be reported under the accounting standards and policies in effect for those periods. The adoption of ASC 606 did not have a material impact on the Company's financial position, results of operations and cash flows as of or for the period ended September 30, 2018, and we expect the impact of the adoption of the new standard will be immaterial to our results of operations on an ongoing basis. The cumulative effect of accounting change recognized was $1.4 million recorded as an increase to beginning balance of accumulated deficit, and a corresponding reduction to Accounts Receivable, net. See Note 3 for additional disclosure.

Effective January 1, 2018, the Company adopted ASU no. 2016-15, *(Topic 230): Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments,* which adds or clarifies guidance on the presentation and classification of eight specific types of cash receipts and cash payments in the statement of cash flows such as debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees, with the intent of reducing diversity in practice. We applied the guidance retrospectively to all periods presented. Exela reclassified a loss on extinguishment of debt from operating activities to financing activities in the third quarter of 2017 in the currently presented financial statements and the to be filed annual financial statements ended December 31, 2018. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the quarter ended September 30, 2018.

Effective January 1, 2018, the Company adopted ASU no. 2016-18, *(Topic 230): Restricted Cash. Statement of Cash Flows: Restricted Cash*. The ASU addresses diversity in practice that exists in the classification and presentation of changes in restricted cash and requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. We applied the guidance retrospectively to all periods presented. As a result of adopting the ASU no. 2016-18, restricted cash is included in the balances of restricted cash, cash and cash equivalents presented in the Statement of Cash Flows for the nine months ended September 30, 2018 and 2017. Adopting the standard increased the net change in cash and cash equivalents, which is reflected within operating cash flows, by $11.4 million for the nine months ended September 30, 2017. Total Cash and cash equivalents for the Beginning of period and End of period September 30, 2017 increased $25.9 million and $37.3 million due to the inclusion of restricted cash.

Effective January 1, 2018, the Company adopted ASU no. 2017-07, *(Topic 715): Compensation Retirement Benefit; Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments to this ASU require the service cost component of net periodic benefit cost be reported in the same income statement line or lines as other compensation costs for employees. The other components of net periodic benefit cost are required to be reported separately from service costs and outside a subtotal of income from operations. The new standard requires retrospective application and allows a practical expedient that permits an employer to use the amounts disclosed in its pension plan footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation. Adoption of the standard resulted in only the service cost being recorded to Cost of revenue; see Note 8 for the related impact.

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**Recently Issued Accounting Pronouncements**

In February 2016, the FASB issued ASU no. 2016-02, *Leases (842)*. This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Since the issuance of the original standard, the FASB has issued a subsequent update that provides a practical expedient for land easements (ASU 2018-01). The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years and early application is permitted. The Company has a significant amount of facilities and equipment leases and is currently evaluating the impact that adopting this standard will have on the consolidated financial statements.

In June 2016, the FASB issued ASU no. 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* to replace the incurred loss impairment methodology under current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The standard will be effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles Goodwill and Other (Topic 350). Current guidance requires an entity that has not elected the private company alternative for goodwill to perform a two-step test to determine the amount, if any, of goodwill impairment. In Step 1, an entity compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the entity performs Step 2 and compares the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeds the implied fair value of that goodwill is recorded, limited to the amount of goodwill allocated to that reporting unit. To address concerns over the cost and complexity of the two-step goodwill impairment test, the amendments in this Update remove the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260)*, *Distinguishing Liabilities from Equity* (Topic 480) *and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. Part I of this ASU addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this ASU addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity,

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because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815); Targeted Improvements to Accounting for Hedging Activities*. The amendments in this ASU better align the risk management activities and financial reporting for these hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles, Goodwill, and Other - Internal Use Software (Subtopic 350-40): Customer's accounting for implementation costs incurred in a Cloud Computing Arrangement that is a service contract*. The amendments in this Update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments also require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, which includes reasonably certain renewals. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

**3. Significant Accounting Policies**

The information presented below supplements the Significant Accounting Policies information presented in our 2017 Form 10-K, including Revenue Recognition for the adoption of ASC 606, which became effective January 1, 2018. See our 2017 Form 10-K for a description of our significant accounting policies in effect prior to the adoption of the new accounting standard.

**Revenue Recognition**

We account for revenue in accordance with ASC 606. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. All of our material sources of revenue are derived from contracts with customers, primarily relating to the provision of business and transaction processing services within each of our segments. We do not have any significant extended payment terms, as payment is received shortly after goods are delivered or services are provided.

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**Exela Technologies, Inc. and Subsidiaries**
**Notes to the Condensed Consolidated Financial Statements**
*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*
(Unaudited)

***Nature of Services***

Our primary performance obligations are to stand ready to provide various forms of business processing services, consisting of a series of distinct services that are substantially the same and have the same pattern of transfer over time, and accordingly are combined into a single performance obligation. Our promise to our customers is typically to perform an unknown or unspecified quantity of tasks and the consideration received is contingent upon the customers' use (i.e., number of transactions processed, requests fulfilled, etc.); as such, the total transaction price is variable. We allocate the variable fees to the single performance obligation charged to the distinct service period in which we have the contractual right to bill under the contract.

***Disaggregation of Revenues***

The following tables disaggregate revenue from contracts by geographic region and by segment for the three and nine months ended September 30, 2018, and 2017:

| | Three months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | ITPS | HS | LLPS | ITPS | HS | LLPS |
| United States | $ 248,055 | $ 56,776 | $ 18,941 | $ 223,555 | $ 56,405 | $ 21,969 |
| Europe | 52,602 | — | — | 30,505 | — | — |
| Other | 6,656 | — | — | 5,959 | — | — |
| Total | $ 307,313 | $ 56,776 | $ 18,941 | $ 260,019 | $ 56,405 | $ 21,969 |

| | Nine months ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | ITPS | HS | LLPS | ITPS | HS | LLPS |
| United States | $ 782,870 | $ 171,722 | $ 65,476 | $ 427,675 | $ 173,548 | $ 66,930 |
| Europe | 146,242 | — | — | 89,736 | — | — |
| Other | 20,269 | — | — | 8,146 | — | — |
| Total | $ 949,381 | $ 171,722 | $ 65,476 | $ 525,557 | $ 173,548 | $ 66,930 |

***Contract Balances***

The following table presents contract assets and contract liabilities recognized at September 30, 2018 and December 31, 2017:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Accounts receivable, net | $ 253,986 | $ 229,704 |
| Deferred revenues | 18,322 | 13,717 |
| Costs to obtain and fulfill a contract | 19,902 | 22,929 |
| Customer deposits | 39,419 | 31,656 |

Accounts receivable, net includes $37.7 million and $27.9 million as of September 30, 2018 and December 31, 2017, respectively, representing amounts not billed to customers. We have accrued the unbilled receivables for work performed in accordance with the terms of contracts with customers.

Deferred revenues relate to payments received in advance of performance under a contract. A significant portion of this balance relates to maintenance contracts or other service contracts where we received payments for upfront conversions or implementation activities which do not transfer a service to the customer but rather are used in fulfilling the related performance obligations that transfer over time. The advance consideration received from customers is deferred over the contract term. We recognized revenue of $12.1 million during the nine months ended September 30, 2018 that had been deferred as of December 31, 2017.

Costs incurred to obtain and fulfill contracts are deferred and expensed on a straight-line basis over the estimated benefit period. We recognized $7.3 million of amortization for these costs in the first nine months of 2018 within depreciation and amortization expense. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or transition activities and can be separated into two principal categories: contract commissions and transition/set-up costs. Examples of such capitalized costs include hourly labor and related fringe benefits and travel costs. Applying the practical expedient in ASC 340-40-25-4, we recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period would have been one year or less. These costs are included in Selling, general and administrative expenses. The effect of applying this practical expedient was not material.

Customer deposits consist primarily of amounts received from customers in advance for postage. The majority of the amounts recorded as of December 31, 2017 were used to pay for postage with the corresponding postage revenue being recognized during the nine months ended September 30, 2018.

***Performance Obligations***

At the inception of each contract, we assess the goods and services promised in our contracts and identify each distinct performance obligation. The majority of our contracts have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts. For the majority of our business and transaction processing service contracts, revenues are recognized as services are provided based on an appropriate input or output method, typically based on the related labor or transactional volumes. Certain of our contracts have multiple performance obligations, including contracts that combine software implementation services with post-implementation customer support. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we estimate our expected costs of satisfying a performance obligation and add an appropriate margin for that distinct good or service. We also use the adjusted market approach whereby we estimate the price that customers in the market would be willing to pay. In assessing whether to allocate variable consideration to a specific part of the contract, we consider the nature of the variable payment and whether it relates specifically to its efforts to satisfy a specific part of the contract. Certain of our software implementation performance obligations are satisfied at a point in time, typically when customer acceptance is obtained.

When evaluating the transaction price, we analyze, on a contract-by-contract basis, all applicable variable consideration. The nature of our contracts give rise to variable consideration, including volume discounts, contract penalties, and other similar items that generally decrease the transaction price. We estimate these amounts based on the expected amount to be provided to customers and reduce revenues recognized. We do not anticipate significant changes to our estimates of variable consideration.

We include reimbursements from customers, such as postage costs, in revenue, while the related costs are included in cost of revenue.

***Transaction Price Allocated to the Remaining Performance Obligations***

In accordance with optional exemptions available under ASC 606, we did not disclose the value of unsatisfied performance obligations for (1) contracts with an original expected length of one year or less, and (2) contracts for which variable consideration relates entirely to an unsatisfied performance obligation, which comprise the majority of our contracts. We have certain non-cancellable contracts where we receive a fixed monthly fee in exchange for a series of distinct services that are substantially the same

*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*

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and have the same pattern of transfer over time, with the corresponding remaining performance obligations as of September 30, 2018 in each of the future periods below:

**Estimated Remaining Fixed Consideration for Unsatisfied Performance Obligations**

| | | |
|---|---|---|
| 2018 | $ | 11,894 |
| 2019 | | 35,726 |
| 2020 | | 19,939 |
| 2021 | | 11,385 |
| 2022 | | 5,556 |
| 2023 and thereafter | | 2,299 |
| Total | $ | 86,799 |

**4. Business Combinations and Acquisitions**

**Novitex**

On July 12, 2017, the Company consummated its business combination with SourceHOV Holdings, Inc. ("SourceHOV") and Novitex Holdings, Inc. ("Novitex", the "Novitex Business Combination") pursuant to the Business Combination Agreement and Consent, Waiver and Amendment to the Novitex Business Combination Agreement, dated February 21, 2017 and June 15, 2017. In connection with the Novitex Business Combination, the Company acquired debt facilities and issued notes totaling $1.4 billion (refer to Note 6 — Long Term Debt and Credit Facilities). Proceeds from the acquired debt were used to refinance the existing debt of SourceHOV, settle the outstanding debt of Novitex, and pay fees and expenses incurred in connection with the Novitex Business Combination. Immediately following the Novitex Business Combination, there were 146,910,648 shares of common stock, 9,194,233 shares of Series A Preferred Stock, and 35,000,000 warrants outstanding.

Under ASC 805, *Business Combinations*, SourceHOV was deemed the accounting acquirer based on the following predominant factors: it has the largest portion of voting rights in the Company, the Board and Management has more individuals coming from SourceHOV than either Quinpario or Novitex, SourceHOV was the largest entity by revenue and by assets, and the headquarters was moved to the SourceHOV headquarters location.

The Company acquired 100% of the equity of Novitex pursuant to the Business Combination Agreement by issuing 30,600,000 shares of common stock of Exela to Novitex Parent, L.P.; the sole stockholder of Novitex Holdings, Inc. Total value of equity for the transaction was $244.8 million. Additionally, as noted, the Company used proceeds from acquired debt to settle the outstanding debt of Novitex in the amount of $420.5 million, and pay transaction related costs and interest on behalf of Novitex in the amount of $10.3 million and $1.0 million, respectively, which was accounted for as part of consideration.

The following table summarizes the consideration paid for Novitex and the fair value of the assets acquired and liabilities assumed at the acquisition date on July 12, 2017:

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**Exela Technologies, Inc. and Subsidiaries**
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*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*
(Unaudited)

| | | |
|---|---|---|
| **Assets Acquired:** | | |
| Cash and equivalents | $ | 8,428 |
| Accounts receivable | | 87,474 |
| Inventory | | 1,245 |
| Prepaid expenses & other | | 13,974 |
| Property and equipment, net | | 60,657 |
| Identifiable intangible assets, net | | 251,060 |
| Deferred charges and other assets | | 2,723 |
| Other noncurrent assets | | 93 |
| Goodwill, excess/deficient purchase price | | 406,060 |
| Total identifiable assets acquired | **$** | **831,714** |
| **Liabilities Assumed:** | | |
| Accounts payable | $ | (29,444) |
| Short-term borrowings and current portion of long term debt | | (11,335) |
| Accrued liabilities | | (30,432) |
| Advanced billings and customer deposits | | (18,926) |
| Long term debt | | (15,704) |
| Deferred taxes | | (46,991) |
| Other liabilities | | (2,226) |
| Total liabilities assumed | **$** | **(155,058)** |
| Total Consideration | **$** | **676,656** |

The identifiable intangible assets include customer relationships, non-compete agreements, internally developed software, and trademarks and trade names. Customer relationships and non-compete agreements were valued using the Income Approach, specifically the Multi-Period Excess Earnings method. Trademarks and trade names were valued using the Income Approach, specifically the Relief-from-Royalty method. Internally developed software was valued based on costs incurred related to Connect Platform. All of these intangibles acquired represent a Level 3 measurement as they are based on unobservable inputs reflecting Management's own assumptions about the inputs used in pricing the asset or liability at fair value.

| | Weighted Average Useful Life (in years) | | Fair Value |
|---|---|---|---|
| Trademark and trade name - Novitex | 9.5 | $ | 18,000 |
| Customer relationships | 16.0 | | 230,000 |
| Inernally developed software - Connect Platform | 5.0 | | 1,710 |
| Non-compete agreements | 1.0 | | 1,350 |
| | | $ | 251,060 |

As of the date of the Novitex Business Combination, the weighted-average useful life of total identifiable intangible assets acquired in the Novitex Business Combination, excluding goodwill, was 15.4 years.

Through the acquisition of Novitex, we continue to pursue revenue synergies, leverage brand awareness, generate greater free cash flow, expand the existing Novitex sales channels, and increase utilization of the existing workforce. The Company also anticipates continued opportunity for growth through the ability to leverage additional future services and capabilities. Our anticipation of synergies and leveraging existing brand awareness, among other factors, contributed to a purchase price in excess of the estimated fair value of Novitex's identifiable net assets assumed, and as a result, the Company has recorded goodwill in connection with this acquisition. Approximately $14.0 million of the

goodwill recorded was tax deductible, which was carried over from the tax basis of the seller. Since the acquisition date of July 12, 2017, $292.1 million of revenue and $17.5 million of net loss were included in our consolidated revenues and net loss, respectively, for Novitex for the year ended December 31, 2017. For the three and nine months ended September 30, 2018 Exela recognized $162.6 million and $512.7 million in revenue related to Novitex in the Consolidated Statement of Operations. These results are included in the ITPS segment.

*Transaction Costs*

The Company incurred approximately $60.0 million in advisory, legal, accounting and management fees in conjunction with the Novitex Business Combination as of December 31, 2017, excluding contract cancellation and advising fees to HandsOn Global Management ("HGM") of $23.0 million. Additionally, $7.6 million was incurred related to equity issuance costs and $40.9 million was incurred in debt issuance costs. No transaction costs were incurred in the nine months ended September 30, 2018.

*Restructuring Charges*

In February 2017, Management performed a strategic review of human resources at Novitex for the purpose of assessing the business need for their employment and for the purpose of quantifying the synergies resulting from the acquisition. As a result, in June 2017, representatives of SourceHOV and HGM Group communicated the termination of certain executives and non-executive Novitex employees. There were no restructuring charges incurred in the nine months ended September 30, 2018 and $4.7 million were incurred during the nine months ended September 30, 2017.

The Company determined that costs associated with termination benefits should be accounted for separately from the acquisition, as a post combination expense of the combined entity because the expense was incurred for the benefit of the combined entity. In connection with the closing of the Novitex Business Combination in the third quarter of 2017 the Company recorded severance expense in the amount of $5.3 million related to the impacted executives and $0.1 million related to other terminations in the statement of operations. Severance expense was $0.4 million for the nine months ended September 30, 2018.

**Asterion**

On April 10, 2018, Exela completed the acquisition of Asterion International Group ("Asterion," the "Asterion Business Combination"), a well-established provider of technology driven business process outsourcing, document management and business process automation across Europe. The purchase price was approximately $19.5 million. The acquisition comes with minimal customer overlap and is strategic to expanding Exela's European business.

The acquired assets and assumed liabilities of Asterion were recorded at their estimated fair values. The purchase price allocation for Asterion is preliminary for estimates for items such as income taxes and subject to change within the respective measurement period, which will not extend beyond one year from the acquisition date. Measurement period adjustments will be recognized in the reporting period in which the adjustment amounts are determined.

The following table summarizes the consideration paid for Asterion and the preliminary fair value of the assets acquired and liabilities assumed at the acquisition date on April 10, 2018:

*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*

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| | | |
|---|---|---|
| **Assets Acquired:** | | |
| Cash and cash equivalents | $ | 15,323 |
| Accounts receivable | | 18,123 |
| Other current assets | | 2,282 |
| Inventories, net | | 1,137 |
| Property, plant, and equipment, net | | 4,747 |
| Deferred income tax assets | | 6,317 |
| Other noncurrent assets | | 522 |
| Intangible assets, net | | 3,525 |
| Goodwill | | 1,493 |
| Total identifiable assets acquired | $ | 53,469 |
| **Liabilities Assumed:** | | |
| Accounts payable | $ | (6,583) |
| Income tax payable | | (5) |
| Accrued liabilities | | (7,718) |
| Accrued compensation and benefits | | (7,079) |
| Deferred revenue | | (880) |
| Current portion of long term debt | | (664) |
| Current capital lease obligations | | (331) |
| Customer deposits | | (462) |
| Pension liability | | (7,134) |
| Other long-term liabilities | | (1,324) |
| Deferred income tax liabilities | | (1,171) |
| Capital lease obligations, net of current maturities | | (650) |
| Total liabilities assumed | $ | (34,001) |
| Total Consideration | $ | 19,468 |

The majority of identifiable intangible assets consisted of customer relationships. Customer relationships were valued using the Income Approach, specifically the Multi-Period Excess Earnings method. This intangible acquired represents a Level 3 measurement as it is based on unobservable inputs reflecting Management's own assumptions about the inputs used in pricing the asset at fair value.

| | Weighed Average Useful Life (in years) | | Fair Value |
|---|---|---|---|
| Customer Relationships | 9.5 | $ | 3,516 |

Through the acquisition of Asterion, we expect to leverage brand awareness, strengthen margins, and expand the existing Asterion sales channels. These factors, among others, contributed to a purchase price in excess of the estimated fair value of Asterion's identifiable net assets assumed, and as a result, the Company has recorded goodwill in connection with this acquisition. For the three and nine months ended September 30, 2018 Exela recognized $18.9 million and $39.8 million in revenue related to Asterion in the Consolidated Statement of Operations.

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**5. Intangibles Assets and Goodwill**

**Intangibles**

Intangible assets are stated at cost or acquisition-date fair value less accumulated amortization and consists of the following:

| | September 30, 2018 | | |
|---|---|---|---|
| | Gross Carrying Amount (a) | Accumulated Amortization | Intangible Assets, Net |
| Customer relationships | $ 507,950 | $ (176,967) | $ 330,983 |
| Developed technology | 89,053 | (85,096) | 3,957 |
| Trade names | 13,100 | (2,326) | 10,774 |
| Costs to obtain and fulfill a contract | 44,406 | (24,504) | 19,902 |
| Internally developed software | 32,518 | (5,343) | 27,175 |
| Trademarks | 23,379 | (17,890) | 5,489 |
| Non compete agreements | 1,350 | (1,350) | — |
| Intangibles, net | $ 711,756 | $ (313,476) | $ 398,280 |

| | December 31, 2017 | | |
|---|---|---|---|
| | Gross Carrying Amount (a) | Accumulated Amortization | Intangible Assets, Net |
| Customer relationships | $ 504,643 | $ (135,962) | $ 368,681 |
| Developed technology | 89,076 | (77,103) | 11,973 |
| Trade names (b) | 13,100 | — | 13,100 |
| Costs to obtain and fulfill a contract | 40,456 | (17,526) | 22,930 |
| Internally developed software | 28,254 | (2,597) | 25,657 |
| Trademarks | 23,370 | (1,446) | 21,924 |
| Non compete agreements | 1,350 | (631) | 719 |
| Intangibles, net | $ 700,249 | $ (235,265) | $ 464,984 |

(a) Amounts include intangible assets acquired in business combinations
(b) The carrying amount of trade names is net of accumulated impairment losses of $39.3 million recognized in 2017.

**Goodwill**

Goodwill by reporting segment consists of the following:

| | Goodwill | Additions | Reductions | Currency translation adjustments | Goodwill (a) |
|---|---|---|---|---|---|
| ITPS | $ 159,394 | $ 406,522**(b)** | — | $ 299 | $ 566,215 |
| HC | 86,786 | — | — | — | 86,786 |
| LLPS | 127,111 | — | (32,787)**(c)** | — | 94,324 |
| Balance as of December 31, 2017 | $ 373,291 | $ 406,522 | $ (32,787) | $ 299 | $ 747,325 |
| ITPS | 566,215 | $ 2,541**(d)** | | $ (104) | 568,652 |
| HC | 86,786 | | | | 86,786 |
| LLPS | 94,324 | | | | 94,324 |
| Balance as of September 30, 2018 | $ 747,325 | $ 2,541 | $ — | $ (104) | $ 749,762 |

(a) The goodwill amount for all periods presented is net of accumulated impairment losses of $137.9 million.
(b) Addition to goodwill is due to the Novitex Business Combination. Refer to Note 4.
(c) The reduction in goodwill is due to $30.1 million for impairment recorded in the fourth quarter of 2017 and $2.7 million for the sale of Meridian Consulting Group, LLC in the first quarter of 2017.

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(d) Addition to goodwill due to the Asterion Business Combination (Refer to Note 4) and an immaterial acquisition in the third quarter.

## 6. Long-Term Debt and Credit Facilities

### Senior Secured Notes

On July 12, 2017, the Company issued $1.0 billion in aggregate principal amount of 10.0% First Priority Senior Secured Notes due 2023 with an original issue discount (“OID”) of $22.5 million (the “Notes”). The Notes are guaranteed by certain subsidiaries of the Company. The Notes bear interest at a rate of 10.0% per year. The Company pays interest on the Notes on January 15 and July 15 of each year, commencing on January 15, 2018. The Notes will mature on July 15, 2023.

### Debt Refinancing

Upon the closing of the Novitex Business Combination on July 12, 2017, the $1,050.7 million outstanding balance of SourceHOV related debt facilities and the $420.5 million outstanding balance of Novitex debt facilities were paid off using proceeds from the Credit Agreement and issuance of the Notes.

In accordance with ASC 470 — *Debt — Modifications and Extinguishments,* as a result of certain lenders that participated in SourceHOV’s debt structure prior to the refinancing and the Company’s debt structure after the refinancing, it was determined that a portion of the refinancing of SourceHOV’s First lien secured term loan and Second lien secured term loan (“Original Term Loans”) would be accounted for as a debt modification, and the remaining would be accounted for as an extinguishment. The Company incurred $28.9 million in debt issuance costs related to the new secured term loan, of which $2.8 million was third party costs. The Company expensed $1.1 million of costs related to the modified debt and capitalized the remaining $27.8 million in the third quarter of 2017. The Company wrote off $30.5 million of the unamortized issuance costs and discounts associated with the retirement of SourceHOV’s credit facilities during the third quarter of 2017. The Company has approximately $3.3 million and $3.5 million of remaining unamortized debt issuance costs and debt discounts, respectively, associated with the modified portion of the Original Term Loans that will be amortized over the term of the new term loan, which are presented on the balance sheet as a contra-debt liability. The Company incurred a $5.0 million prepayment penalty related the Company’s Original Term Loans that was recorded as a loss on extinguishment of debt in the third quarter of 2017.

The proceeds of the new debt financing were also used to pay fees and expenses incurred in connection with the Novitex Business Combination and for general corporate purposes.

### Senior Credit Facilities

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the “Credit Agreement”) providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, a (i) $350.0 million senior secured term loan maturing July 12, 2023 with an OID of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022, none of which is currently drawn. As of September 30, 2018 and December 31, 2017, the Company had outstanding irrevocable letters of credit totaling approximately $20.6 million and $20.9 million, respectively, under the senior secured revolving facility.

The Credit Agreement provides for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company’s option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior

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secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity.

**Term Loan Repricing**

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the “Repricing”). The Repricing was accomplished pursuant to a First Amendment to First Lien Credit Agreement (the “First Amendment”), dated as of July 13, 2018, by and among the Company’s subsidiaries Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each “Subsidiary Loan Party” listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto, whereby the Company borrowed $343.4 million of refinancing term loans (the “Repricing Term Loans”) to refinance the Company’s existing senior secured term loans.

In accordance with ASC 470 — *Debt — Modifications and Extinguishments,* as a result of certain lenders that participated in Exela’s debt structure prior to the Term Loan Repricing and the Company’s debt structure after the refinancing, it was determined that a portion of the refinancing of Exela’s senior secured credit facilities would be accounted for as a debt modification, and the remaining would be accounted for as an extinguishment. The company incurred $1.0 million in new debt issuance costs related to the refinancing, of which $1.0 million was expensed pursuant to modification accounting. The proportion of debt that was extinguished resulted in a write off of previously recognized debt issue costs of $0.1 million. Additionally, for the new lenders who exceeded the 10% test, less than $0.1 million was recorded as additional debt issue costs. All unamortized costs and discounts will be amortized over the life of the new term loan using the effective interest rate of the term loan.

The Repricing Term Loans will bear interest at a rate per annum of, at the Company’s option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin of 6.50% for LIBOR loans and 5.50% for base rate loans. The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the Credit Agreement. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

**Incremental Term Loan**

On July 13, 2018, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the “Incremental Term Loans”) under the First Amendment. The proceeds of the Incremental Term Loans may be used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment. The interest rates applicable to the Incremental Term Loans are the same as those for the Repricing Term Loans.

The Company may voluntarily repay the Repricing Term Loans and the Incremental Term Loans (collectively, the “Term Loans”) at any time, without prepayment premium or penalty, except in connection with a repricing event as described in the following sentence, subject to customary “breakage” costs with respect to LIBOR rate loans. Any refinancing of the Term Loans through the issuance of certain debt or any repricing amendment, in either case, that constitutes a “repricing event” applicable to the Term Loans

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resulting in a lower yield occurring at any time during the first six months after July 13, 2018 will be accompanied by a 1.00% prepayment premium or fee, as applicable.

Other than as described above, the terms, conditions and covenants applicable to the Repricing Term Loans and the Incremental Term Loans are consistent with the terms, conditions and covenants that were applicable to the Existing Term Loans under the First Lien Credit. The Repricing and issuance of the Incremental Term Loans resulted in a partial debt extinguishment, for which Exela recognized $1.1 million in debt extinguishment costs in the third quarter of 2018.

**Long-Term Debt Outstanding**

As of September 30, 2018 and December 31, 2017, the following long-term debt instruments were outstanding:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Other (a) | $ 17,906 | $ 17,534 |
| First lien credit agreement (b) | 336,684 | 308,825 |
| Senior secured notes (c) | 973,356 | 970,300 |
| Total debt | 1,327,946 | 1,296,659 |
| Less: Current portion of long-term debt | (20,062) | (20,565) |
| Long-term debt, net of current maturities | $ 1,307,884 | $ 1,276,094 |

(a) Other debt represents the Company’s outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company.

(b) Net of unamortized original issue discount and debt issuance costs of $8.7 million and $25.7 million as of September 30, 2018 and $9.9 million and $29.1 million as of December 31, 2017.

(c) Net of unamortized debt discount and debt issuance costs of $19.0 million and $7.6 million as of September 30, 2018 and $21.2 million and $8.5 million as of December 31, 2017.

**7. Income Taxes**

The Company applies an estimated annual effective tax rate (“ETR”) approach for calculating a tax provision for interim periods, as required under U.S. GAAP. The Company recorded an income tax benefit of $0.7 million and $37.0 million for the three months ended September 30, 2018 and 2017, respectively. The Company recorded an income tax expense of $4.9 million and an income tax benefit of $32.9 million for the nine months ended September 30, 2018 and 2017, respectively.

The Company’s ETR of 2.5% and (6.7%) for the three and nine months ended September 30, 2018, respectively, differed from the expected U.S. statutory tax rate of 21.0% and was primarily impacted by permanent tax adjustments, state and local current expense, foreign operations, and valuation allowances, including valuation allowances on a portion of the Company’s deferred tax assets on U.S. disallowed interest expense carryforward’s created by the provisions of The Tax Cuts and Jobs Act (“TCJA”).

The Company’s ETR of 25.1% and 18.4% for the three and nine months ended September 30, 2017, respectively, differed from the U.S. statutory tax rate of 35.0%, and was primarily impacted by permanent tax adjustments (primarily transaction costs), Meridian goodwill impairment, foreign operations, Indian prior year tax expense true-up, and a valuation allowance against certain domestic deferred tax assets that are not more-likely-than-not to be realized.

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The TCJA subjects a US shareholder to tax on Global Intangible Low-taxed Income (“GILTI”) earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for GILTI, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. Our accounting policy election with respect to the new GILTI Tax rules will depend, in part, on analyzing our global income to determine whether we can reasonably estimate the tax impact. We are interpreting the provisions included in the recently proposed GILTI regulations issued by the U.S. Treasury Department which may impact our GILTI calculation. Given the complexity of the GILTI provisions, we are still evaluating the effects of the GILTI provisions and have not yet determined our accounting policy. At September 30, 2018, because we are still evaluating the GILTI provisions and our analysis of future taxable income that is subject to GILTI, we have included GILTI related to current-year operations only in our annual effective ETR and have not provided additional GILTI on deferred items.

Additionally, on August 1, 2018, the U.S. Treasury Department released proposed regulations covering the one-time transition tax on undistributed foreign earnings, which was enacted as part of the TCJA. We evaluated the issuance of the new guidance to our provisional amounts related to the transition tax that were initially recorded in our overall tax provision for the year ended December 31, 2017 and determined there are no changes to our prior estimates of the one-time transition tax as a result of the proposed regulations. We will continue to refine our provisional estimates for our computations as information is made available.

As of September 30, 2018, there were no material changes to either the nature or the amounts of the uncertain tax positions previously determined for the year ended December 31, 2017. The Company’s valuation allowances have increased by approximately $18.5 million from December 31, 2017 to September 30, 2018 due largely to effects of TCJA relating to interest expense.

During the fourth quarter the Company filed its 2017 U.S. federal income tax return for the year ended December 31, 2017. The impact of the 2017 tax return to provision adjustments included changes in estimates to our previously recognized one-time transition tax on undistributed foreign earnings that resulted in a reduction of our US federal net operating loss carryforwards by $6.7 million ($1.4 million tax effected at the newly enacted US federal rate of 21%) and also decreased our federal valuation allowance by the same amount resulting in no net effect to the tax provision. As of September 30, 2018 the Company has not finalized its accounting for the income tax effects of the TCJA and will continue to analyze the impact of the proposed regulations covering the one-time transition tax during the SAB 118 measurement period.

## 8. Employee Benefit Plans

### German Pension Plan

The Company’s subsidiary in Germany provides pension benefits to certain retirees. Employees eligible for participation include all employees who started working for the Company prior to September 30, 1987 and have finished a qualifying period of at least 10 years. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan. The German pension plan is an unfunded plan and therefore has no plan assets.

### U.K. Pension Plan

The Company’s subsidiary in the United Kingdom provides pension benefits to certain retirees and eligible dependents. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to October 2001. A retirement pension or a lump-sum payment may be paid dependent upon length of service at the mandatory retirement age. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

### Tax Effect on Accumulated Other Comprehensive Loss

As of September 30, 2018 and December 31, 2017, the Company recorded actuarial losses of $10.7 million and $11.1 million in accumulated other comprehensive loss on the condensed consolidated balance sheets, respectively, which is net of a deferred tax benefit of $2.0 million.

*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*

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**Pension Expense**

The components of the net periodic benefit cost are as follows:

| | Three Months ended September 30, | | Nine Months ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Service cost | $ 27 | $ 2 | $ 56 | $ 6 |
| Interest cost | 569 | 585 | 1,686 | 1,708 |
| Expected return on plan assets | (701) | (610) | (2,076) | (1,782) |
| **Amortization:** | | | | |
| Amortization of prior service cost | (34) | (34) | (102) | (99) |
| Amortization of net (gain) loss | 433 | 529 | 1,294 | 1,546 |
| **Net periodic benefit cost** | $ 294 | $ 472 | $ 858 | $ 1,379 |

Upon adopting ASU no. 2017-07 as described in Note 2, the Company now records pension interest cost within Interest expense, net. Expected return on plan assets, amortization of prior service costs, and amortization of net losses are recorded within Other income, net. Service cost is recorded within Cost of revenue.

**Employer Contributions**

The Company's funding of employer contributions is based on governmental requirements and differs from those methods used to recognize pension expense. The Company made contributions of $2.3 million to its pension plans during the nine months ended September 30, 2018 and 2017. The Company has funded the pension plans with the required contributions for 2018 based on current plan provisions.

## 9. Commitments and Contingencies

**Appraisal Demand**

On September 21, 2017, former stockholders of SourceHOV, who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the Novitex Business Combination, which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their shares at the time of the Novitex Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). The parties have commenced discovery. Trial is currently scheduled for June 2019. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate any loss or range of loss that may arise from the Appraisal Action. Pursuant to the terms of the Novitex Business Combination Agreement, if such appraisal rights are perfected, a corresponding portion of shares of our Common Stock issued to Ex-Sigma 2 LLC, our principal stockholder, will be forfeited at such time as the PIPE Financing (as defined in the Consent, Waiver and Amendment dated June 15, 2017) is repaid. The Company intends to vigorously defend against the Appraisal Action.

## 10. Fair Value Measurement

**Assets and Liabilities Measured at Fair Value**

The carrying amount of assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable approximated their fair value as of September 30, 2018 and December 31, 2017

*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*

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due to the relative short maturity of these instruments. Management estimates the fair values of the secured term loan and secured notes at approximately 101.5% and 106.4% respectively, of the respective principal balance outstanding as of September 30, 2018. The carrying value approximates the fair value for the long-term debt. Other debt represents the Company's outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company and as such, the cost incurred would approximate fair value. Property and equipment, intangible assets, capital lease obligations, and goodwill are not required to be re-measured to fair value on a recurring basis. These assets are evaluated for impairment if certain triggering events occur. If such evaluation indicates that impairment exists, the respective asset is written down to its fair value.

The Company determined the fair value of its long-term debt using Level 2 inputs including the recent issue of the debt, the Company's credit rating, and the current risk-free rate. The Company's contingent liabilities related to prior acquisitions are re-measured each period and represent a Level 2 measurement as it is based on using an earn out method based on the agreement terms.

The following table provides the carrying amounts and estimated fair values of the Company's financial instruments as of September 30, 2018 and December 31, 2017:

| | Carrying | Fair | Fair Value Measurements | | |
|---|---|---|---|---|---|
| **As of September 30, 2018** | **Amount** | **Value** | **Level 1** | **Level 2** | **Level 3** |
| Recurring and nonrecurring assets and liabilities: | | | | | |
| Acquisition contingent liability | $ 721 | 721 | — | — | 721 |
| Long-term debt | 1,307,884 | 1,438,469 | | 1,438,469 | |
| Interest rate swap asset | $ 6,753 | 6,753 | — | 6,753 | |

| | Carrying | Fair | Fair Value measurements | | |
|---|---|---|---|---|---|
| **As of December 31, 2017** | **Amount** | **Value** | **Level 1** | **Level 2** | **Level 3** |
| Recurring and nonrecurring assets and liabilities: | | | | | |
| Acquisition contingent liability | $ 721 | 721 | — | — | 721 |
| Long-term debt | 1,276,094 | 1,308,478 | | 1,308,478 | |
| Interest rate swap asset | $ 1,297 | 1,297 | — | 1,297 | |

The significant unobservable inputs used in the fair value of the Company's acquisition contingent liability are the discount rate, growth assumptions, and revenue thresholds. Significant increases (decreases) in the discount rate would have resulted in a lower (higher) fair value measurement. Significant increases (decreases) in the forecasted financial information would have resulted in a higher (lower) fair value measurement. For all significant unobservable inputs used in the fair value measurement of the Level 3 liabilities, a change in one of the inputs would not necessarily result in a directionally similar change in the other based on the current level of billings.

The following table reconciles the beginning and ending balances of net assets and liabilities classified as Level 3 for which a reconciliation is required:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Balance as of Beginning of Period | $ 721 | $ 721 |
| Payments/Reductions | — | — |
| Balance as of End of Period | $ 721 | $ 721 |

*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*

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**11. Stock-Based Compensation**

At closing of the Novitex Business Combination, SourceHOV had 24,535 restricted stock units ("RSUs") outstanding under its 2013 Long Term Incentive Plan ("2013 Plan"). Simultaneous with the closing of the Novitex Business Combination, the 2013 Plan, as well as all vested and unvested RSUs under the 2013 Plan were assumed by Ex-Sigma, LLC ("ExSigma"), an entity formed by the former SourceHOV equity holders, which is also the Company's principal stockholder. In accordance with U.S. GAAP, the Company continues to incur compensation expense related to the 9,880 unvested RSUs as of July 12, 2017 on a straight-line basis until fully vested, as the recipients of the RSUs are employees of the Company. Subject to continuous employment and other terms of the 2013 Plan, all remaining unvested RSUs with an initial vesting period of 3 or 4 years will vest in April 2019. As of September 30, 2018 there are 2,675 nonvested shares related to the 2013 Plan with a weighted average remaining contractual life of .58 years and a weighted average aggregate intrinsic value per share of $1,633.

**Exela 2018 Stock Incentive Plan**

On January 17, 2018, Exela's 2018 Stock Incentive Plan (the "2018 Plan") became effective. The 2018 Plan provides for the grant of incentive and nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, performance awards, and other stock-based compensation to eligible participants. Under the 2018 Plan, stock options are granted at a price per share not less than 100% of the fair market value per share of the underlying stock at the grant date. The vesting period for each option award is established on the grant date, and the options generally expire 10 years from the grant date. The Company is authorized to issue up to 8,323,764 shares of Common Stock under the 2018 plan.

**Restricted Stock Unit Grants**

Restricted stock awards generally vest ratably over a one to two year period. Shares of restricted stock granted under the 2018 plan are considered issued and outstanding at the date of grant and have the same voting rights as other outstanding common stock. Restricted stock units are subject to forfeiture if employment terminates prior to vesting and are expensed ratably over the vesting period.

A summary of the status of restricted stock units related to the 2018 Plan as of September 30, 2018 is presented as follows:

| | Number of Shares | Weighted Average Grant Date Fair Value | Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value ($) |
|---|---|---|---|---|
| Shares granted | 1,020,220 | $ 283.1 | | |
| Shares forfeited | — | | | |
| Shares vested | (126,923) | | | |
| Nonvested at September 30, 2018 | 893,297 | $ 283.1 | 1.00 | $ 4,598 |

**Options**

Options are granted at not less than fair market value on the date of grant and expire no later than ten years after the date of grant. Options granted under the 2018 Plan generally require no less than a two or four year ratable vesting period. Stock option activity in the first nine months of 2018 is summarized in the following table:

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**Exela Technologies, Inc. and Subsidiaries**
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*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*
(Unaudited)

| | Outstanding | Weighted Average Exercise Price | Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value ($) |
|---|---|---|---|---|
| Granted | 3,570,300 | $ 6.06 | | |
| Exercised | — | | | |
| Canceled | — | | | |
| Expired | | | | |
| Balance at September 30, 2018 | 3,570,300 | $ 6.06 | 3.14 | $ 9,590 |

As of September 30, 2018, there was approximately $17.0 million of total unrecognized compensation expense related to non-vested awards for the 2013 Plan and 2018 Plan, which will be recognized over the respective service period.

Stock-based compensation expense is recorded within Selling, general, and administrative expenses. The Company incurred total compensation expense of $4.5 million and $1.6 million related to the 2013 Plan and 2018 Plan awards for the three and nine months ended September 30, 2018.

**12. Stockholders' Equity**

The following description summarizes the material terms and provisions of the securities that the Company has authorized.

**Common Stock**

The Company is authorized to issue 1,600,000,000 shares of common stock, par value $0.0001 per share. At September 30, 2018 the Company had 151,648,643 shares of common stock outstanding. Except as otherwise required by law or as otherwise provided in any certificate of designation for any series of preferred stock, the holders of Exela Common Stock possess all voting power for the election of Exela's directors and all other matters requiring stockholder action and will at all times vote together as one class on all matters submitted to a vote of Exela stockholders. Holders of Exela Common Stock are entitled to one vote per share on matters to be voted on by stockholders. Holders of Exela Common Stock will be entitled to receive such dividends and other distributions, if any, as may be declared from time to time by the board of directors in its discretion out of funds legally available therefor and shall share equally on a per share basis in such dividends and distributions. The holders of the common stock have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the common stock.

**Preferred Stock**

The Company is authorized to issue 20,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors. At September 30, 2018, the Company had 4,569,233 shares of Series A Preferred Stock outstanding. The par value of Series A Preferred Stock is $0.0001 per share. Each share of Series A Convertible Preferred Stock will be convertible at the holder's option, at any time after the six-month anniversary and prior to the third anniversary of the issue date, initially into 1.2226 shares of Exela Common Stock.

Holders of the Series A Preferred Stock will be entitled to receive cumulative dividends at a rate per annum of 10% of the Liquidation Preference per share of Series A Preferred Stock, paid or accrued quarterly in arrears. From the issue date until the third anniversary of the issue date, the amount of all accrued but unpaid dividends on the Series A Preferred Stock will be added to the Liquidation Preference without any action by the Company's board of directors. For the three and nine months ended September 30, 2018 this amount was $0.9 million and $2.7 million, respectively, as reflected on the Consolidated

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Statement of Operations. The cumulative accrued but unpaid dividends of the Series A Preferred Stock since their inception on July 12, 2017 is $5.2 million. The per share average of cumulative preferred dividends is 0.6 dollars.

Following the third anniversary of the issue date, dividends on the Series A Preferred Stock will be accrued by adding to the Liquidation Preference or paid in cash, or a combination thereof. In addition, holders of the Series A Preferred Stock will participate in any dividend or distribution of cash or other property paid in respect of the Common Stock pro rata with the holders of the Common Stock (other than certain dividends or distributions that trigger an adjustment to the conversion rate, as described in the Certificate of Designations), as if all shares of Series A Preferred Stock had been converted into Common Stock immediately prior to the date on which such holders of the Common Stock became entitled to such dividend or distribution.

**Treasury Stock**

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires in 24 months. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. We purchased 994,197 shares during the nine months ended September 30, 2018 under the Share Buyback Program at an average share price of $4.81.

**Warrants**

At September 30, 2018, there were 34,988,302 warrants outstanding. As part of its IPO, Quinpario had issued 35,000,000 units including one share of common stock and one warrant of which 34,988,302 have been separated from the original unit and 11,698 warrants remain an unseparated part of the originally issued units. The warrants are traded on the OTC Bulletin Board as of September 30, 2018.

Each warrant entitles the holder to purchase one-half of one share of common stock at a price of $5.75 per half share ($11.50 per whole share). Warrants may be exercised only for a whole number of shares of common stock. No fractional shares will be issued upon exercise of the warrants. Each warrant is currently exercisable and will expire July 12, 2022 (five years after the completion of the Novitex Business Combination), or earlier upon redemption.

The Company may call the warrants for redemption at a price of $0.01 per warrant upon a minimum of 30 days' prior written notice of redemption, if, and only if, the last sales price of our shares of common stock equals or exceeds $24.00 per share for any 20 trading days within a 30 trading day period (the "30-day trading period") ending three business days before we send the notice of redemption, and if, and only if, there is a current registration statement in effect with respect to the shares of common stock underlying such warrants commencing five business days prior to the 30-day trading period and continuing each day thereafter until the date of redemption.

**13. Related-Party Transactions**

**Leasing Transactions**

Certain operating companies lease their operating facilities from HOV RE, LLC and HOV Services Limited, which are affiliates through common interest held by Ex-Sigma 2 LLC, our largest stockholder.

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The rental expense for these operating leases was $0.2 million for the three months ended September 30, 2018 and 2017, and $0.5 million for the nine months ended September 30, 2018 and 2017.

**Consulting Agreement**

The Company receives services from Oakana Holdings, Inc. The Company and Oakana Holdings, Inc. are related through a family relationship between certain shareholders and the president of Oakana Holdings, Inc. The expense recognized for these services was $0.1 million for the three months ended September 30, 2018. The expense recognized for these services was $0.1 million for the nine months ended September 30, 2018.

The Company received consulting services from Shadow Pond, LLC. Shadow Pond, LLC is wholly owned and controlled by Vik Negi, our Executive Vice President Treasury and Business Affairs. The consulting arrangement was established to compensate Mr. Negi for his services to the Company prior to becoming an employee. The expense recognized for these services was $0.1 million and $0.4 million for the nine months ended September 30, 2018 and 2017, respectively. This consulting arrangement with Shadow Pond, LLC terminated on April 1, 2018 and Mr. Negi continues to provide services as an employee of the Company. As such, there were no additional expenses for the three months ended September 30, 2018.

**Relationship with HandsOn Global Management**

The Company incurred management fees to HGM, SourceHOV's former owner, of $3.0 million and $6.0 million for the three and nine month periods ended September 30, 2017. The management agreement terminated in 2017 and there were no such fees for the three and nine months ended September 30, 2018.

The Company incurred reimbursable travel expenses to HGM of $0.1 million for the three months ended September 30, 2018, and $0.2 million and $0.5 million for the nine months ended September 30, 2018 and 2017.

Pursuant to a master agreement dated January 1, 2015 between Rule 14, LLC and SourceHOV, the Company incurs marketing fees to Rule 14, LLC, a portfolio company of HGM. Similarly, SourceHOV is party to ten master agreements with entities affiliated with HGM's managed funds, each of which were entered into during 2015 and 2016. Each master agreement provides SourceHOV with free use of technology and includes a reseller arrangement pursuant to which SourceHOV is entitled to sell these services to third parties. Any revenue earned by SourceHOV in such third-party sale is shared 75%/25% with each of HGM's venture affiliates in favor of SourceHOV. The brands Zuma, Athena, Peri, BancMate, Spring, Jet, Teletype, CourtQ and Rewardio are part of the HGM managed funds. SourceHOV has the license to use and resell such brands, as described therein. We incurred fees relating to these agreements of $0.2 million and $0.1 million for the three months ended September 30, 2018 and 2017. We incurred fees relating to these agreements of $0.6 million and $0.3 million for the nine months ended September 30, 2018 and 2017, respectively.

**Relationship with HOV Services, Ltd.**

HOV Services, Ltd. provides the Company data capture and technology services. HOV Services, Ltd is an indirect equity holder of Ex-Sigma LLC. The expense recognized for these services was $0.4 million for the three months ended September 30, 2018 and 2017, and $1.2 million and $1.3 million for the nine months ended September 30, 2018 and 2017, respectively. These expenses are included in cost of revenue in the consolidated statements of operations.

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**Relationship with Apollo Global Management, LLC**

The Company provides services to and receives services from certain Apollo affiliated companies. Funds managed by Apollo Global Management, LLC have the right to designate two of the Company's directors. On November 18, 2014, the Company's subsidiary, Exela Enterprises Solutions, Inc. ("Novitex Solutions"), entered into a master services agreement with Management Holdings, an indirect wholly owned subsidiary of Apollo. Pursuant to this master services agreement, Novitex Solutions provides Management Holdings printer supplies and maintenance services, including toner maintenance, training, quarterly business review and printer procurement. We recognized revenue of $0.1 million and $0.2 million in our consolidated statements of operations from Apollo affiliated companies under this agreement for the three months ended September 30, 2018 and 2017. We recognized revenue of $0.5 million and $0.2 million for the nine months ended September 30, 2018 and 2017 in our consolidated statements of operations from Apollo affiliated companies under this agreement.

On January 18, 2017, Novitex Solutions entered into a master purchase and professional services agreement with Caesars Enterprise Services, LLC ("Caesars"). Caesars is controlled by investment funds affiliated with Apollo. Pursuant to this master purchase and professional services agreement, Novitex Solutions provides managed print services to Caesars, including general equipment operation, supply management, support services and technical support. We recognized revenue of approximately $1.1 million and 0.4 million in our consolidated statements of operations from Caesars under this master purchase and professional services agreement for the three months ended September 30, 2018 and 2017. We recognized revenue of $3.1 million and $0.4 million for the nine months ended September 30, 2018 and 2017 in our consolidated statements of operations from Caesars under this master purchase and professional services agreement.

On May 5, 2017, Novitex Solutions entered into a master services agreement with ADT LLC. ADT LLC is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Novitex Solutions provides ADT LLC with mailroom and onsite mail delivery services at an ADT LLC office location and managed print services, including supply management, equipment maintenance and technical support services. We recognized revenue of $0.2 million and $0.4 million in our consolidated statements of operations from ADT LLC under this master services agreement for the three and nine months ended September 30, 2018.

On July 20, 2017, Novitex Solutions entered into a master services agreement with Diamond Resorts Centralized Services Company. Diamond Resorts Centralized Services Company is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Novitex Solutions provides commercial print and promotional product procurement services to Diamond Resorts Centralized Services Company, including sourcing, inventory management and fulfillment services. The Company recognized revenue of $0.7 million and $4.9 million for the three and nine months ended September 30, 2018 and cost of revenue of $0.1 million for the nine months ended September 30, 2018 from Diamond Resorts Centralized Services Company under this master services agreement. No cost of revenue was recognized for the three months ended September 30, 2018 under this agreement.

In April 2016, Novitex Solutions entered into a master services agreement with Presidio Networked Solutions Group, LLC ("Presidio Group"), a wholly owned subsidiary of Presidio, Inc., a portion of which is owned by affiliates of Apollo and with a common Apollo designated director. Pursuant to this master services agreement, Presidio Group provides Novitex Solutions with employees, subcontractors, and/or goods and services. For the three and nine months ended September 30, 2018 there were related party expenses of $0.2 million and $0.5 million, respectively, for this service. For the three and nine months ended September 30, 2017 there were related party expenses of $0.2 million for this service.

*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*

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**Payable Balances with Affiliates**

Payable balances with affiliates as of September 30, 2018 and December 31, 2017 are as follows:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| HOV Services, Ltd | $ 411 | $ 286 |
| Rule 14 | 123 | 158 |
| HGM | 10,080 | 13,689 |
| Apollo affiliated company | 142 | 312 |
| | $ 10,756 | $ 14,445 |

**14. Segment Information**

The Company's operating segments are significant strategic business units that align its products and services with how it manages its business, approach the markets and interacts with its clients. The Company is organized into three segments: ITPS, HS, and LLPS.

**ITPS:** Our ITPS segment provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries.

**HS:** Our HS segment operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets.

**LLPS:** Our LLPS segment provides a broad and active array of legal services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters.

The chief operating decision maker reviews operating segment revenue and gross profit. The Company does not allocate selling, general, and administrative expenses, depreciation and amortization, interest expense and sundry, net. The Company manages assets on a total company basis, not by operating segment, and therefore asset information and capital expenditures by operating segments are not presented.

| | Three months ended September 30, 2018 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 307,313 | $ 56,776 | $ 18,941 | $ 383,030 |
| Cost of revenue (exclusive of depreciation and amortization) | 246,492 | 36,919 | 12,525 | 295,936 |
| Selling, general and administrative expenses | | | | 44,913 |
| Depreciation and amortization | | | | 35,041 |
| Related party expense | | | | 759 |
| Interest expense, net | | | | 38,339 |
| Loss on extinguishment of debt | | | | 1,067 |
| Sundry expense, net | | | | (2,571) |
| Other income, net | | | | (781) |
| Net loss before income taxes | | | | $ (29,673) |

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**Exela Technologies, Inc. and Subsidiaries**
**Notes to the Condensed Consolidated Financial Statements**
*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*
(Unaudited)

| | Three months ended September 30, 2017 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 260,019 | $ 56,405 | $ 21,969 | $ 338,393 |
| Cost of revenue (exclusive of depreciation and amortization) | 204,602 | 37,451 | 13,063 | 255,116 |
| Selling, general and administrative expenses | | | | 102,048 |
| Depreciation and amortization | | | | 28,052 |
| Related party expense | | | | 26,892 |
| Interest expense, net | | | | 37,652 |
| Sundry expense, net | | | | 563 |
| Loss on extinguishment of debt | | | | 35,512 |
| Net loss before income taxes | | | | $ (147,442) |

| | Nine months ended September 30, 2018 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 949,381 | $ 171,722 | $ 65,476 | $ 1,186,579 |
| Cost of revenue (exclusive of depreciation and amortization) | 752,796 | 111,135 | 39,751 | 903,682 |
| Selling, general and administrative expenses | | | | 137,231 |
| Depreciation and amortization | | | | 109,428 |
| Related party expense | | | | 3,267 |
| Interest expense, net | | | | 114,883 |
| Loss on extinguishment of debt | | | | 1,067 |
| Sundry expense, net | | | | (4,961) |
| Other income, net | | | | (4,813) |
| Net loss before income taxes | | | | $ (73,205) |

| | Nine months ended September 30, 2017 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 525,557 | $ 173,548 | $ 66,930 | $ 766,035 |
| Cost of revenue (exclusive of depreciation and amortization) | 385,447 | 113,152 | 40,643 | 539,242 |
| Selling, general and administrative expenses | | | | 172,626 |
| Depreciation and amortization | | | | 70,779 |
| Related party expense | | | | 31,733 |
| Interest expense, net | | | | 91,740 |
| Sundry expense, net | | | | 2,960 |
| Loss on extinguishment of debt | | | | 35,512 |
| Net loss before income taxes | | | | $ (178,557) |

**15. Subsequent Events**

On October 31, 2018 Exela entered into a definitive agreement to acquire Drescher Group ("Drescher"), a well-established business process outsourcing ("BPO") company focusing on integrated communications with a large presence in Europe's largest economy, Germany. The purchase price was approximately $5.1 million on a cash free, debt free basis. The acquisition is subject to customary and closing conditions, including regulatory approval.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion and analysis together with our condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q. Among other things, the condensed consolidated financial statements include more detailed information regarding the basis of presentation for the financial data than included in the following discussion. Amounts in thousands of United States dollars.*

***Forward Looking Statements***

*Certain statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this quarterly report are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by words such as "may", "should", "would", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "seem", "seek", "continue", "future", "will", "expect", "outlook" or other similar words, phrases or expressions. These forward-looking statements include statements regarding our industry, future events, the estimated or anticipated future results and benefits of the Novitex Business Combination, future opportunities for the combined company, and other statements that are not historical facts. These statements are based on the current expectations of Exela management and are not predictions of actual performance. These statements are subject to a number of risks and uncertainties regarding Exela's businesses and actual results may differ materially. The factors that may affect our results include, among others: the impact of political and economic conditions on the demand for our services; the impact of a data or security breach; the impact of competition or alternatives to our services on our business pricing and other actions by competitors; our ability to address technological development and change in order to keep pace with our industry and the industries of our customers; the impact of terrorism, natural disasters or similar events on our business; the effect of legislative and regulatory actions in the United States and internationally; the impact of operational failure due to the unavailability or failure of third-party services on which we rely; the effect of intellectual property infringement; and other factors discussed in this quarterly report and our Annual Report on Form 10-K for the year ended December 31, 2017 (our "Annual Report") under the heading "Risk Factors" as supplemented by risk factors described in Part II, "Item 1A. Risk Factors" of our quarterly report for the quarter ended June 30, 2018 and otherwise identified or discussed in this quarterly report. You should consider these factors carefully in evaluating forward-looking statements and are cautioned not to place undue reliance on such statements, which speak only as of the date of this quarterly report. It is impossible for us to predict new events or circumstances that may arise in the future or how they may affect us. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this quarterly report. We are not including the information provided on the websites referenced herein as part of, or incorporating such information by reference into, this quarterly report. In addition, forward-looking statements provide Exela's expectations, plans or forecasts of future events and views as of the date of this quarterly report. Exela anticipates that subsequent events and developments will cause Exela's assessments to change. These forward-looking statements should not be relied upon as representing Exela's assessments as of any date subsequent to the date of this quarterly report.*

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**Overview**

We are a global provider of transaction processing solutions, enterprise information management, document management and digital business process services. Our technology-enabled solutions allow multi-national organizations to address critical challenges resulting from the massive amounts of data obtained and created through their daily global operations. Our solutions address the life cycle of transaction processing and enterprise information management, from enabling payment gateways and data exchanges across multiple systems, to matching inputs against contracts and handling exceptions, to ultimately depositing payments and distributing communications. We believe our process expertise, information technology capabilities and operational insights enable our clients' organizations to more efficiently and effectively execute transactions, make decisions, drive revenue and profitability, and communicate critical information to their employees, customers, partners, and vendors.

**History**

We are a former blank check company that completed our initial public offering on January 22, 2015. In July 2017, Exela Technologies, Inc. ("Exela"), formerly known as Quinpario Acquisition Corp. 2 ("Quinpario"), completed its acquisition of SourceHOV Holdings, Inc. ("SourceHOV") and Novitex Holdings, Inc. ("Novitex") pursuant to the business combination agreement dated February 21, 2017 ("Novitex Business Combination"). In conjunction with the completion of the Novitex Business Combination, Quinpario was renamed as Exela Technologies, Inc.

The Novitex Business Combination was accounted for as a reverse merger for which SourceHOV was determined to be the accounting acquirer. Outstanding shares of SourceHOV were converted into equity in a newly formed entity that acquired our common shares, presented as a recapitalization, and the net assets of Quinpario were acquired at historical cost, with no goodwill or other intangible assets recorded. The acquisition of Novitex was treated as a business combination under ASC 805 and was accounted for using the acquisition method. The strategic combination of SourceHOV and Novitex formed Exela, which is one of the largest global providers of information processing solutions based on revenues.

**Basis of Presentation**

This analysis is presented on a consolidated basis. In addition, a description is provided of significant transactions and events that have an impact on the comparability of the results being analyzed. Due to our specific situation, the financial information presented for the three and nine months ended September 30, 2018 is only partially comparable to the financial information for the three and nine months ended September 30, 2017. Since SourceHOV was deemed the accounting acquirer in the Novitex Business Combination consummated on July 12, 2017, the financial information presented for the three and nine months ended September 30, 2017 reflects the financial information and activities of SourceHOV only. The financial information presented for the three and nine months ended September 30, 2018 includes the financial information and activities for SourceHOV and Novitex for the period January 1, 2018 to September 30, 2018. This lack of comparability needs to be taken into account when reading the discussion and analysis of our results of operations and cash flows.

**Our Segments**

Our three reportable segments are Information & Transaction Processing Solutions (''ITPS''), Healthcare Solutions (''HS''), and Legal & Loss Prevention Services (''LLPS''). These segments are comprised of significant strategic business units that align our transaction processing solutions and enterprise information management products and services with how we manage our business, approach our key markets and interact with our clients based on their respective industries.

**ITPS:** Our largest segment, ITPS, provides a wide range of solutions and services designed to aid businesses in information capture, processing, and distribution to customers primarily in the financial services, commercial, public sector and legal industries. Our major customers include the top 10 U.S. banks, 9 of the top 10 U.S. insurance companies, 5 of the top U.S. telecom companies, over 40 utility companies, over 30 state and county departments, and over 80 government entities. Our ITPS offerings

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enable companies to increase availability of working capital, reduce turnaround times for application processes, increase regulatory compliance and enhance consumer engagement.

**HS**: HS operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets. We serve the top 5 healthcare insurance payers and over 900 healthcare providers.

**LLPS**: Our LLPS segment provides a broad and active array of support services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters. Our client base consists of corporate counsel, government attorneys, and law firms.

**Acquisitions**

In July 2017, we completed the Novitex Business Combination. SourceHOV was deemed to be the accounting acquirer. Through the acquisition of SourceHOV and Novitex, we continue to pursue revenue synergies, leverage brand awareness, generate greater free cash flow, expand the existing Novitex sales channels, and increase utilization of the existing workforce. We anticipate future opportunities for growth through the ability to leverage additional future services and capabilities.

Prior to the 2017 Novitex Business Combination, SourceHOV transformed into a multi-industry solution provider and acquired key technology through the acquisition of TransCentra, Inc. (''TransCentra''), a provider of integrated outsourced billing, remittance processing and imaging software and consulting services. The addition of TransCentra increased SourceHOV's footprint in the remittance transaction processing and presentment area, expanded its mobile banking offering and enabled significant cross-selling and up-selling opportunities.

On April 10, 2018, Exela completed the acquisition of Asterion International Group ("Asterion"), a well-established provider of technology driven business process outsourcing, document management and business process automation ("BPA") across Europe. Asterion currently serves over 250 key customers in Europe from 13 operating locations and 30 customer sites. The purchase price was approximately $19.5 million. The acquisition comes with minimal customer overlap and is strategic to expand Exela's pro forma combined European business to over $200 million in annual revenue. This acquisition will not only enable Asterion's customers to access Exela's full suite of BPA solutions but also strategically position Exela to expand its existing revenue base through a broader portfolio of offerings with a larger European presence.

**Revenues**

ITPS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed, licensing and maintenance fees for technology sales, and a mix of fixed management fee and transactional revenue for document logistics and location services. HS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed for healthcare payers and providers. LLPS revenues are primarily based on time and materials pricing as well as through transactional services priced on a per item basis.

**People**

We draw on the business and technical expertise of our talented and diverse global workforce to provide our customers with high-quality services. Our business leaders bring a strong diversity of experience in our industry and a track record of successful performance and execution.

Costs associated with our employees represent the most significant expense for our business. We incurred personnel costs of $168.8 million and $168.0 million for the three months ended September 30, 2018 and 2017, respectively. We incurred personnel costs of $516.5 million and $360.0 million for the nine months ended September 30, 2018 and 2017, respectively. The majority of our personnel costs are variable and are incurred only while we are providing our services.

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**Key Performance Indicators**

We use a variety of operational and financial measures to assess our performance. Among the measures considered by our management are the following:

Revenue by segment;

EBITDA; and

Adjusted EBITDA

Revenue

We analyze our revenue by comparing actual monthly revenue to internal projections and prior periods across our operating segments in order to assess performance, identify potential areas for improvement, and determine whether our segments are meeting management's expectations.

EBITDA and Adjusted EBITDA

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integrations costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses. See ''—Other Financial Information (Non-GAAP Financial Measures)'' for more information and a reconciliation of EBITDA and Adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP.

**Results of Operations**

**Three Months Ended September 30, 2018 compared to Three Months Ended September 30, 2017:**

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| | Three Months ended September 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | Change | % Change |
| Revenue: | | | | |
| ITPS | $ 307,313 | $ 260,019 | $ 47,294 | 18.19% |
| HS | 56,776 | 56,405 | 371 | 0.66% |
| LLPS | 18,941 | 21,969 | (3,028) | -13.78% |
| Total revenue | 383,030 | 338,393 | 44,637 | 13.19% |
| Cost of revenues (exclusive of depreciation and amortization): | | | | |
| ITPS | 246,492 | 204,602 | 41,890 | 20.47% |
| HS | 36,919 | 37,451 | (532) | -1.4% |
| LLPS | 12,525 | 13,063 | (538) | -4.12% |
| Total cost of revenues | 295,936 | 255,116 | 40,820 | 16.00% |
| Selling, general and administrative expenses | 44,913 | 102,048 | (57,135) | -55.99% |
| Depreciation and amortization | 35,041 | 28,052 | 6,989 | 24.91% |
| Related party expense | 759 | 26,892 | (26,133) | -97.18% |
| Operating income | 6,381 | (73,715) | 80,096 | -108.66% |
| Interest expense, net | 38,339 | 37,652 | 687 | 1.82% |
| Loss on extinguishment of debt | 1,067 | 35,512 | (34,445) | -97.00% |
| Sundry expense/(income), net | (2,571) | 563 | (3,134) | -556.66% |
| Other income, net | (781) | — | (781) | — |
| Net loss before taxes | (29,673) | (147,442) | 117,769 | -79.87% |
| Income tax expense | 733 | 37,002 | (36,269) | -98.02% |
| Net loss | $ (28,940) | $ (110,440) | $ 81,500 | -73.8% |

***Revenue***

The increase in total revenues was primarily related to the Novitex Business Combination and the Asterion Business Combination. Our ITPS, HS, and LLPS segments constituted 80.2%, 14.8%, and 5.0% of total revenue, respectively, for the three months ended September 30, 2018, compared to 76.8%, 16.7%, and 6.5%, respectively, for the three months ended September 30, 2017. The revenue changes by reporting segment were as follows:

ITPS —The increase was primarily attributable to the Novitex Business Combination and the Asterion Business Combination, which contributed $28.1 million and $18.9 million, or 99.5% of the increase.

HS — The amounts are materially consistent with the prior period.

LLPS — The decrease was primarily attributable to projects winding down during the third quarter of 2018.

***Cost of Revenue***

The increase in total cost of revenue was primarily related to the Novitex Business Combination and the Asterion Business Combination. The cost of revenue changes by operating segment was as follows:

ITPS — The increase was primarily attributable to the Novitex Business Combination and the Asterion Business Combination, which contributed approximately $26.0 million and $17.5 million of the increase.

HS — The amounts are materially consistent with the prior period. Cost of revenue as a percentage of total revenue was 65.0% in the third quarter of 2018 compared to 66.4% in the third quarter of 2017, a decrease of 1.4%.

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LLPS — Cost of revenue as a percentage of revenue increased to 66.1% in the third quarter of 2018 compared to 59.5% in the third quarter of 2017 mainly driven by the lower revenue from projects winding down.

***Selling, General and Administrative Expenses***

The decrease of $57.1 million for the comparative period was primarily driven by the one-time transaction costs incurred in 2017 as part of the Business Combination, offset by the impact of the Asterion Business Combination which contributed $2.0 million in expense for the three months ended September 30, 2018.

***Depreciation & Amortization***

The increase was primarily attributable to amortization of trademarks and trade names resulting in higher amortization expense.

***Related Party Expenses***

Excluding the $23.0 million of contract termination and advisory fees to HandsOn Global Management ("HGM") during 2017 in connection with the Novitex Business Combination, the expenses remained relatively flat.

***Interest Expense***

The amounts are materially consistent with the prior period.

***Sundry Expense (Income)***

The decrease was primarily attributable to foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

The increase is primarily attributable to an interest rate swap entered into in 2017. The interest rate swap was not designated as a hedge. As such, changes in the fair value of this derivative instrument of $0.8 million for the quarter ended September 30, 2018 were recorded directly in earnings.

***Income Tax (Expense) Benefit***

We had an income tax benefit of $0.7 million for the three months ended September 30, 2018 compared to an income tax benefit of $37.0 million for the three months ended September 30, 2017. The change in the income tax expense was primarily attributable to our change in judgment related to the realizability of certain deferred tax assets. The income tax benefit for the three months ended September 30, 2017 was primarily related to the decrease of valuation allowance on a portion of the Company's U.S. federal and state valuation allowance on deferred tax assets in connection with the acquisition of Novitex. The change in the effective tax rate for the three months ended September 30, 2018 resulted from permanent tax adjustments and valuation allowances, including valuation allowances against disallowed interest expense deferred tax assets that are not more-likely-than-not to be realized.

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**Nine Months Ended September 30, 2018 compared to Nine Months Ended September 30, 2017:**

| | Nine Months ended September 30, 2018 | 2017 | Change | % Change |
|---|---|---|---|---|
| Revenue: | | | | |
| ITPS | $ 949,381 | $ 525,557 | $ 423,824 | 80.64% |
| HS | 171,722 | 173,548 | (1,826) | -1.05% |
| LLPS | 65,476 | 66,930 | (1,454) | -2.17% |
| Total revenue | 1,186,579 | 766,035 | 420,544 | 54.90% |
| Cost of revenues (exclusive of depreciation and amortization): | | | | |
| ITPS | 752,796 | 385,447 | 367,349 | 95.30% |
| HS | 111,135 | 113,152 | (2,017) | -1.78% |
| LLPS | 39,751 | 40,643 | (892) | -2.19% |
| Total cost of revenues | 903,682 | 539,242 | 364,440 | 67.58% |
| Selling, general and administrative expenses | 137,231 | 172,626 | (35,395) | -20.50% |
| Depreciation and amortization | 109,428 | 70,779 | 38,649 | 54.61% |
| Related party expense | 3,267 | 31,733 | (28,466) | -89.70% |
| Operating income | 32,971 | (48,345) | 81,316 | -168.20% |
| Interest expense, net | 114,883 | 91,740 | 23,143 | 25.23% |
| Loss on extinguishment of debt | 1,067 | 35,512 | (34,445) | -97.00% |
| Sundry expense/(income), net | (4,961) | 2,960 | (7,921) | -267.60% |
| Other income, net | (4,813) | — | (4,813) | — |
| Net loss before taxes | (73,205) | (178,557) | 105,352 | -59.00% |
| Income tax expense | (4,911) | 32,924 | (37,835) | -114.92% |
| Net loss | $ (78,116) | $ (145,633) | $ 67,517 | -46.4% |

***Revenue***

The increase in total revenues was primarily related to the Novitex Business Combination and the Asterion Business Combination. Our ITPS, HS, and LLPS segments constituted 80.0%, 14.5%, and 5.5% of total revenue, respectively, for the nine months ended September 30, 2018, compared to 68.6%, 22.7%, and 8.7%, respectively, for the nine months ended September 30, 2017. The revenue changes by reporting segment were as follows:

ITPS —The increase was primarily attributable to the Novitex Business Combination and the Asterion Business Combination, which contributed $378.3 million and $39.8 million, or 98.6% of the increase.

HS — The net decrease of $2.0 million is primarily attributable to lower volumes in healthcare provider business.

LLPS — The decrease was primarily attributable to the disposal of Meridian Consulting in the first quarter of 2017.

***Cost of Revenue***

The increase in total cost of revenue was primarily related to the Novitex Business Combination and the Asterion Business Combination. The cost of revenue changes by operating segment was as follows:

ITPS — The increase was primarily attributable to the Novitex Business Combination and the Asterion Business combination, which contributed approximately $324.5 million and $36.6 million, or 98.3% of the increase.

HS — The decrease was primarily driven by cost savings synergies. Cost of revenue as a percentage of revenue remained relatively flat at 64.7% in the first nine months of 2018 compared to 65.2% in the first nine months of 2017.

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LLPS — Cost of revenue, as a percentage of revenue remained flat at 60.7% for the first nine months of 2018 as well as 2017.

***Selling, General and Administrative Expenses***

The decrease of $35.4 million for the comparative period was primarily driven by the one-time transaction costs incurred in 2017 as part of the Novitex Business Combination.

***Depreciation & Amortization***

The increase was primarily attributable to accelerated amortization of trademarks and trade names resulting in higher amortization expense.

***Related Party Expenses***

The decrease was primarily attributable to the $23.0 million of contract termination and advisory fees to HandsOn Global Management ("HGM") during 2017 in connection with the Novitex Business Combination. Additionally, the July 2017 termination of the management agreement with HGM resulted in lower management fees expense of $3.0M for the comparative period.

***Interest Expense***

The increase was primarily attributable to the issuance of new debt in conjunction with the Novitex Business Combination.

***Sundry Expense (Income)***

The decrease was primarily attributable to foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

The increase is primarily attributable to an interest rate swap entered into in 2017. The interest rate swap was not designated as a hedge. As such, changes in the fair value of this derivative instrument of $5.5 million for the nine months ended September 30, 2018 were recorded directly in earnings. This was offset by a net loss on the sale of a business asset of 0.7 million.

***Income Tax (Expense) Benefit***

We had income tax expense of $4.9 million for the nine months ended September 30, 2018 compared to income tax benefit of $32.9 million for the nine months ended September 30, 2017. The change in the income tax expense was primarily attributable to our change in judgment related to the realizability of certain deferred tax assets. The income tax benefit for the nine months ended September 30, 2017 was primarily related to the decrease of valuation allowance on a portion of the Company's U.S. federal and state valuation allowance on deferred tax assets in connection with the acquisition of Novitex. The change in the effective tax rate for the nine months ended September 30, 2018 resulted from permanent tax adjustments and valuation allowances, including valuation allowances against disallowed interest expense deferred tax assets that are not more-likely-than-not to be realized.

**Other Financial Information (Non-GAAP Financial Measures)**

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integrations costs; other non-cash charges, including non-cash

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compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses.

We present EBITDA and Adjusted EBITDA because we believe they provide useful information regarding the factors and trends affecting its business in addition to measures calculated under GAAP. Additionally, our credit agreement requires us to comply with certain EBITDA related metrics. Refer to ''—Liquidity and Capital Resources—Credit Facility.''

***Note Regarding Non-GAAP Financial Measures***

EBITDA and Adjusted EBITDA are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial performance and results of operations as our board of directors and management use EBITDA and Adjusted EBITDA to assess our financial performance, because it allows them to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization) and items outside the control of our management team. Net loss is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some but not all items that affect the most directly comparable GAAP financial measures. You should not consider EBITDA and Adjusted EBITDA in isolation or as substitutes for an analysis of our results as reported under GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

**Three months ended September 30, 2018 compared to the Three Months ended September 30, 2017**

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the three months ended September 30, 2018 and 2017:

| | Three months ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Net Loss | $ (28,940) | $ (110,440) |
| Taxes | (733) | (37,002) |
| Interest Expense | 38,339 | 37,652 |
| Depreciation and Amortization | 35,041 | 28,052 |
| EBITDA | 43,707 | (81,738) |
| Optimization and restructuring expenses (1) | 19,446 | 19,702 |
| Transaction related costs (2) | 220 | 77,321 |
| Non-cash equity compensation (3) | 1,621 | 2,230 |
| Other charges including non-cash (4) | 2,848 | 364 |
| Loss on sale of of assets (5) | 769 | — |
| Gain on sale of Meridian (6) | — | (337) |
| Loss on extinguishment of debt | 1,067 | 35,512 |
| Gain on derivative instruments | (781) | — |
| Adjusted EBITDA | $ 68,898 | 53,054 |

(1) Adjustment represents net salary and benefits associated with positions that are part of the on-going savings initiatives including severance, retention bonuses, and related fees and expenses. Additionally, the adjustment includes charges incurred by us to terminate existing lease and vendor contracts as part of the on-going savings initiatives.

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(2)Represents costs incurred related to transactions for completed or contemplated transactions during the period.
(3)Represents the non-cash charges related to restricted stock units and options granted by Ex-Sigma, LLC and Exela to our employees that vested during the year.
(4)Represents fair value adjustments to deferred revenue and deferred rent accounts established as part of purchase accounting and other non-cash charges.
(5)Represents a loss recognized on the disposal of property, plant, and equipment and other assets.
(6)Represents a gain recognized on the disposal of Meridian Consulting Group, LLC.

***EBITDA and Adjusted EBITDA***

EBITDA was $43.7 million for the three months ended September 30, 2018 compared to $(81.7) million for the three months ended September 30, 2017. Adjusted EBITDA was $68.9 million for the three months ended September 30, 2018 compared to $53.1 million for the three months ended September 30, 2017. The increase in EBITDA for the three months ended September 30, 2018 was primarily due to the net loss that was comprised of significantly higher transaction costs and loss on extinguishment of debt incurred as a result of the Novitex Business Combination in 2017.

**Nine months ended September 30, 2018 compared to the Nine Months ended September 30, 2017:**

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the nine months ended September 30, 2018 and 2017:

| | Nine months ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Net Loss | $ (78,116) | $ (145,633) |
| Taxes | 4,911 | (32,924) |
| Interest Expense | 114,883 | 91,740 |
| Depreciation and Amortization | 109,428 | 70,779 |
| EBITDA | 151,106 | (16,038) |
| Optimization and restructuring expenses (1) | 46,968 | 31,535 |
| Transaction related costs (2) | 2,097 | 86,561 |
| Non-cash equity compensation (3) | 4,516 | 4,446 |
| Other charges including non-cash (4) | 5,463 | 514 |
| Loss on sale of of assets (5) | 1,434 | 18 |
| (Gain)/loss on sale of Meridian (6) | 720 | (588) |
| Management, board fees and expenses (7) | — | 4,153 |
| Loss on extinguishment of debt | 1,067 | 35,512 |
| Gain on derivative instruments | (4,813) | — |
| Adjusted EBITDA | $ 208,558 | 146,113 |

(1)Adjustment represents net salary and benefits associated with positions that are part of the on-going savings initiatives including severance, retention bonuses, and related fees and expenses. Additionally, the adjustment includes charges incurred by us to terminate existing lease and vendor contracts as part of the on-going savings initiatives.
(2)Represents costs incurred related to transactions for completed or contemplated transactions during the period.
(3)Represents the non-cash charges related to restricted stock units and options granted by Ex-Sigma, LLC and Exela to our employees that vested during the year.
(4)Represents fair value adjustments to deferred revenue and deferred rent accounts established as part of purchase accounting and other non-cash charges.
(5)Represents a loss recognized on the disposal of property, plant, and equipment and other assets.
(6)Represents a gain recognized on the disposal of Meridian Consulting Group, LLC.

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(7) Amount represents management fees paid to HGM and TransCentra's prior owner, Board of Directors fees and corresponding travel, and other expenses (e.g., rating agency fees, chargebacks) which are not expected to continue on a go-forward basis.

***EBITDA and Adjusted EBITDA***

EBITDA was $151.1 million for the nine months ended September 30, 2018 compared to $(16.0) million for the nine months ended September 30, 2017. Adjusted EBITDA was $208.6 million for the nine months ended September 30, 2018 compared to $146.1 million for the nine months ended September 30, 2017. The increase in EBITDA for the nine months ended September 30, 2018 was primarily due to the net loss that was comprised of significantly higher transaction costs and loss on extinguishment of debt incurred as a result of the Novitex Business Combination in 2017.

**Liquidity and Capital Resources**

**Overview**

Our primary source of liquidity is principally cash generated from operating activities supplemented as necessary on a short-term basis by borrowings against our senior secured revolving credit facility. We believe our current level of cash and short-term financing capabilities along with future cash flows from operations are sufficient to meet the needs of the business.

We currently expect to spend approximately $40 to $45 million on total capital expenditures over the next twelve months. We believe that our operating cash flow and available borrowings under our credit facility will be sufficient to fund our operations for at least the next twelve months.

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the "Repricing"). The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

At September 30, 2018, cash and cash equivalents totaled $49.6 million and we had availability of $79.4 million under our senior secured revolving credit facility.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

| | Nine months ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Cash flow used in operating activities | $ (2,280) | $ (11,801) |
| Cash flow used in investing activities | (28,002) | (440,667) |
| Cash flow provided by (used in) financing activities | (1,005) | 482,569 |
| Subtotal | (31,287) | 30,101 |
| Effect of exchange rates on cash | (554) | 335 |
| Net increase (decrease) in cash | $ (31,842) | $ 30,436 |

**Analysis of Cash Flow Changes between the Nine Months Ended September 30, 2018 and September 30, 2017**

Operating Activities—The increase of $9.5 million in cash flows from operating activities for the nine months ended September 30, 2018 was primarily due to increased revenues due to the Novitex Business Combination, professional stock fees paid in 2017 as part of the Novitex Business Combination, and an

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adjustment in deferred income tax benefits offset by lower cash flows relating to the timing of payment of accounts payable and accrued liabilities, an increase in cost of revenues, higher interest payments, and lower cash inflows from accounts receivable due to unbilled receivables from new customers.

Investing Activities—The increase of $412.7 million in cash used in investing activities was primarily due to the cash paid in the Novitex Business Combination offset by an increase in purchases of property, plant, and equipment.

Financing Activities—The decrease of $483.6 million in cash used in financing activities was primarily due to proceeds from the new credit facility associated with the Novitex Business Combination and lower principal payments on long-term obligations offset by contributions from shareholders during the first quarter of 2017, increased cash paid for equity issuance costs during the first quarter of 2018, and cash paid for common share repurchases in the second quarter of 2018, partially offset by lower principal payments on long-term obligations.

**Indebtedness**

In connection with the Novitex Business Combination, we acquired debt facilities and issued notes totaling $1.4 billion. Proceeds from the indebtedness were used to pay off credit facilities existing immediately before the Novitex Business Combination.

*Senior Credit Facilities*

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the “Credit Agreement”) providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, (i) a $350.0 million senior secured term loan maturing July 12, 2023 with an original issue discount of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022, none of which is currently drawn. The Credit Agreement provides for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company’s option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity. As of September 30, 2018 the interest rate applicable for the first lien senior secured term loan was 8.83%.

*Senior Secured Notes*

Senior secured notes of $1.0 billion due July 2023 were also issued as part of the Novitex Business Combination. The notes bear interest at a rate of 10.0% per year. We pay interest on the notes on January 15 and July 15 of each year, commencing on January 15, 2018. The notes are guaranteed by subsidiary guarantors pursuant to a supplemental indenture.

*Term Loan Repricing*

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the “Repricing”). The Repricing was accomplished pursuant to a First Amendment to First Lien Credit Agreement (the “First Amendment”), dated as of July 13, 2018, by and among Exela Intermediate Holdings LLC, the Company, each “Subsidiary Loan Party” listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party

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thereto, whereby the Company borrowed $343.4 million of refinancing term loans (the “Repricing Term Loans”) to refinance the Company’s existing senior secured term loans.

The Repricing Term Loans will bear interest at a rate per annum of, at the Company’s option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin of 6.50% for LIBOR loans and 5.50% for base rate loans. The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement, by and among Exela Intermediate Holdings, LLC, the Company, Royal Bank of Canada, as administrative agent and collateral agent, and each of the lenders party thereto. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

*Incremental Term Loan*

On July 13, 2018, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the “Incremental Term Loans”) under the First Amendment. The proceeds of the Incremental Term Loans may be used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment. The interest rates applicable to the Incremental Term Loans are the same as those for the Repricing Term Loans.

The Company may voluntarily repay the Repricing Term Loans and the Incremental Term Loans (collectively, the “Term Loans”) at any time, without prepayment premium or penalty, except in connection with a repricing event as described in the following sentence, subject to customary “breakage” costs with respect to LIBOR rate loans. Any refinancing of the Term Loans through the issuance of certain debt or any repricing amendment, in either case, that constitutes a “repricing event” applicable to the Term Loans resulting in a lower yield occurring at any time during the first six months after July 13, 2018 will be accompanied by a 1.00% prepayment premium or fee, as applicable.

*Letters of Credit*

As of September 30, 2018 and December 31, 2017, we had outstanding irrevocable letters of credit totaling approximately $20.6 million and $20.9 million, respectively, under the revolving credit facility.

**Contractual Obligations**

Our contractual obligations are described in our Form 10-K for the fiscal year ended December 31, 2017. There have been no material changes to that information since December 31, 2017.

**Potential Future Transactions**

We may, from time to time explore and evaluate possible strategic transactions, which may include joint ventures, as well as business acquisitions or the acquisition or disposition of assets. In order to pursue certain of these opportunities, additional funds will likely be required. There can be no assurance that we will enter into additional strategic transactions or alliances, nor do we know if we will be able to obtain the necessary financing for transactions that require additional funds on favorable terms, if at all.

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**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

**Interest Rate Risk**

At September 30, 2018, we had $1,327.9 million of debt outstanding, with a weighted average interest rate of 9.6%. Interest is calculated under the terms of our credit agreement based on the greatest of certain specified base rates plus an applicable margin that varies based on certain factors. Assuming no change in the amount outstanding, the impact on interest expense of a 1% increase or decrease in the assumed weighted average interest rate would be approximately $13.3 million per year. In order to mitigate interest rate fluctuations with respect to term loan borrowings under the Credit Agreement, in November 2017, we entered into a three year; one-month LIBOR interest rate swap contract with a notional amount of $347.8 million, which at the time was the remaining principal balance of the term loan. The swap contract swaps out the floating rate interest risk related to the LIBOR with a fixed interest rate of 1.9275% effective January 12, 2018.

The interest rate swap, which is used to manage our exposure to interest rate movements and other identified risks, was not designated as a hedge. As such, changes in the fair value of the derivative are recorded directly to other income in the amount of $0.8 million and $5.5 million for the three and nine months ended September 30, 2018.

**Foreign Currency Risk**

We are exposed to foreign currency risks that arise from normal business operations. These risks include transaction gains and losses associated with intercompany loans with foreign subsidiaries and transactions denominated in currencies other than a location's functional currency. Contracts are denominated in currencies of major industrial countries.

**Market Risk**

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. We do not use derivatives for trading purposes, to generate income or to engage in speculative activity.

**Off Balance Sheet Arrangements**

At September 30, 2018, we had no material off balance sheet arrangements, except for operating leases as described in our Form 10-K for the fiscal year ended December 31, 2017 and letters of credit described above under Liquidity and Capital Resources. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements.

**Item 4. Internal Controls and Procedures**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that material information required to be disclosed in our reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been detected.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief

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Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective due to a material weakness in internal control over financial reporting described below.

**Material Weakness identified as of December 31, 2017**

As of the year ended December 31, 2017, management identified a material weakness in internal controls over financial reporting relating to the supervision of specialists engaged to assist management in developing accounting conclusions with respect to a specific revenue contract and stock-based compensation accounting. We are addressing the material weakness through hiring additional experienced professionals. We have initiated changes in our process of evaluating information provided to and received from experts and are currently assessing the design and operating effectiveness of such controls.

**Management's Report on Internal Controls over Financial Reporting**

Our Annual Report on Form 10-K for the year ended December 31, 2017 did not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

The SEC, as required by Section 404 of the Sarbanes-Oxley Act, adopted rules requiring companies that file reports with the SEC to include a management report on such company's internal control over financial reporting in its annual report. In addition, our independent registered public accounting firm will be required to attest to our internal control over financial reporting. Management will be required to provide an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2018. Our independent registered public accounting firm will first be required to attest to the effectiveness of our internal control over financial reporting for our Annual Report on Form 10-K for the first year we are no longer an "emerging growth company" under the JOBS Act. We are in the process of improving the internal control over financial reporting required to comply with this obligation. However, there is no guarantee that our efforts will result in management's ability to conclude, or, if required, our independent registered public accounting firm to attest, that our internal control over financial reporting is effective as of December 31, 2018.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter-ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

**Item 1. Legal Proceedings**

*Appraisal Demand*

On September 21, 2017, former stockholders of SourceHOV, who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the Novitex Business Combination, which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their shares at the time of the

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Novitex Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). The parties have commenced discovery. Trial is currently scheduled for June 2019. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate any loss or range of loss that may arise from the Appraisal Action. Pursuant to the terms of the Novitex Business Combination Agreement, if such appraisal rights are perfected, a corresponding portion of shares of our Common Stock issued to Ex-Sigma 2 LLC, our principal stockholder, will be forfeited at such time as the PIPE Financing (as defined in the Consent, Waiver and Amendment dated June 15, 2017) is repaid. The Company intends to vigorously defend against the Appraisal Action.

*Other*

We are involved in various other legal proceedings that have arisen in the normal course of business. While the ultimate results of these matters cannot be predicted with certainty, we do not expect them to have a material adverse effect on our Consolidated Financial Statements.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the risk factors described in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, and supplemented by risk factors described in Part II, "Item 1A. Risk Factors" in our quarterly report for the quarter ended June 30, 2018 (collectively, the "Risk Factors") which could materially affect our business, financial condition and/or operating results. The risks described in these Risk Factors are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

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**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires 24 months after authorized. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. In November of 2017, the Company purchased 49,300 shares as part of the Program. We purchased an additional 225,504 shares during the third quarter of 2018 at an average share price of $4.94. As of September 30, 2018, 1,043,497 shares had been repurchased under the Share Buyback Program. The Company records treasury stock using the cost method.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

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**Item 6. Exhibits.**

| Exhibit No. | Description |
|---|---|
| 2.1 | Business Combination Agreement, dated as of February 21, 2017, by and among Quinpario Acquisition Corp. 2, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., Novitex Holdings, Inc., SourceHOV Holdings, Inc., Novitex Parent, L.P, HOVS LLC and HandsOn Fund 4 I, LLC (3) |
| 3.1 | Restated Certificate of Incorporation, dated July 12, 2017 (4) |
| 3.2 | Amended and Restated Bylaws, dated July 12, 2017 (4) |
| 4.1 | Specimen common stock Certificate (1) |
| 4.2 | Specimen Warrant Certificate (1) |
| 4.3 | Form of Warrant Agreement between Continental Stock Transfer & Trust Company and the Registrant (1) |
| 4.4 | Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc. as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee (4) |
| 4.5 | First Supplemental Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc., as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee (4) |
| 10.1 | First Amendment to First Lien Credit Agreement, dated as of July 13, 2018, by and among Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each Subsidiary Loan Party listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto. |
| 31.1 | Certification of the Principal Executive Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 31.2 | Certification of the Principal Financial and Accounting Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 32.1 | Certification of the Principal Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 |
| 32.2 | Certification of the Principal Financial and Accounting Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

(1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-198988).
(2) Incorporated by reference to the Registrant's Amendment No. 1 to Registration Statement on Form S-3, filed on February 16, 2018.
(3) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed on February 22, 2017.
(4) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 18, 2017.
(5) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 17, 2018.

## SIGNATURES

Pursuant to the requirements of the Section 13 or 15 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 8th day of November, 2018.

EXELA TECHNOLOGIES, INC.

By: /s/ Ronald Cogburn
Ronald Cogburn
Chief Executive Officer (Principal Executive Officer)

By: /s/ James G. Reynolds
James G. Reynolds
Chief Financial Officer (Principal Financial and Accounting Officer)

# Exhibit 7

S&P Global
Market Intelligence

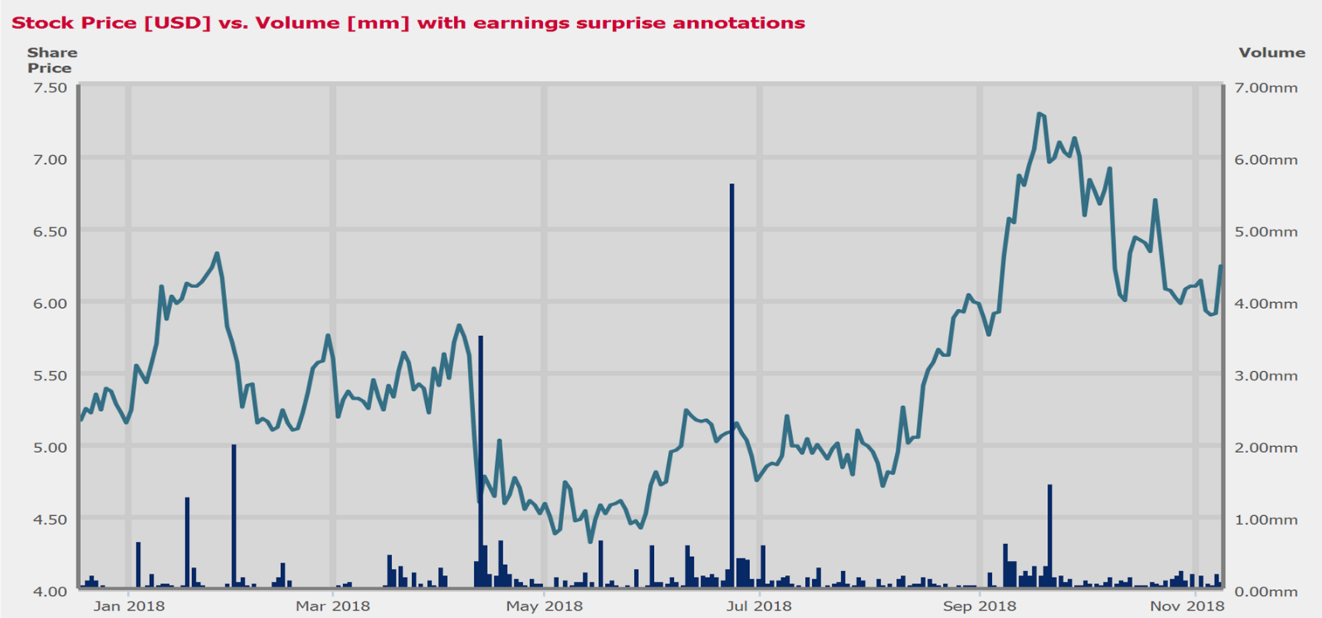
# Exela Technologies, Inc. NasdaqCM:XELA FQ3 2018 Earnings Call Transcripts

## Thursday, November 08, 2018 10:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ3 2018- | | | -FQ4 2018- | -FY 2018- | -FY 2019- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS Normalized** | (0.02) | (0.06) | NM | 0.02 | 0.00 | 0.28 |
| **Revenue (mm)** | 378.73 | 383.03 | ▲1.14 | 407.93 | 1590.65 | 1669.55 |

Currency: USD
Consensus as of Nov-05-2018 3:54 PM GMT




| - EPS NORMALIZED - | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ4 2017** | - | - | - |
| **FQ1 2018** | (0.02) | (0.05) | NM |
| **FQ2 2018** | (0.05) | (0.07) | NM |
| **FQ3 2018** | (0.02) | (0.06) | NM |

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# Call Participants

EXECUTIVES

**James F. Mathias**
*Vice President of Investor Relations*

**James G. Reynolds**
*Chief Financial Officer*

**Ronald Clark Cogburn**
*Chief Executive Officer*

ANALYSTS

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

**Brian Lee Essex**
*Morgan Stanley, Research Division*

**Dan Dolev**
*Instinet, LLC, Research Division*

**David Lawrence Phipps**
*Citigroup Inc, Research Division*

**Drew Kootman**
*Cantor Fitzgerald & Co., Research Division*

**Matthew Van Roswell**
*RBC Capital Markets, LLC, Research Division*

# Presentation

**Operator**

Good afternoon, ladies and gentlemen, and welcome to the Exela Technologies Third Quarter 2018 Call. My name is Brian. I'll be your host operator on this call. [Operator Instructions] Please note, today's event is being recorded.

And with that, I'd like to turn the conference over to Mr. Jim Mathias, Vice President of Investor Relations. Please go ahead, sir.

**James F. Mathias**
*Vice President of Investor Relations*

Thank you, Brian. Good afternoon, everyone, and welcome to the Exela Technologies Third Quarter 2018 Conference Call. I'm here today with Ron Cogburn, Exela's Chief Executive Officer and Jim Reynolds, our Chief Financial Officer. Following prepared remarks made by Ron and Jim, we will take your questions. Today's conference call is being broadcast live via webcast, which is available on the Investor Relations page of Exela's website, www.exelatech.com. The replay of this call will be available until November 15, 2018. Information to access the replay is listed in today's press release, which is also available on the Investor Relations page of Exela's website.

During today's call, Exela will make certain statements regarding future events and financial performance that may be characterized as forward-looking under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to known and unknown risks and uncertainties, and are based on current expectations and assumptions. We undertake no obligation to update any statements to reflect the events that occur after this call, and actual results could differ materially from any forward-looking statements. For more information, please refer to the risk factors discussed in Exela's most recently filed periodic reports on Form 10-K and Form 10-Q filed with the SEC today, along with the associated press release and the company's other filings with the SEC. Copies are available from the SEC or the Investor Relations page of Exela's website.

During today's call, we will refer to certain non-GAAP financial measures. Reconciliations between GAAP and non-GAAP results we discuss on this call can be found on the Investor Relations page of our website. As a reminder, financial results discussed on today's call reflect pro forma combined company results for the business combination of SourceHOV Holdings and Novitex Holdings, which closed on July 12, 2017. Please note, the presentation that accompanies this conference call and an investor fact sheet are also accessible on the Investor Relations page of our website.

We will now begin by turning the call over to our CEO, Ron Cogburn. Ron?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Thanks, Jim. Good afternoon and thanks everyone for joining us today. Let's turn to Slide #4 and discuss our key financial highlights. We reported strong top line results with third quarter revenue of $383 million, an increase of 7% on a year-over-year basis. Revenue grew at a double-digit rate on a year-to-date basis, coming in at 11%. Our revenue per FTE, a metric we closely track, has seen an 8% increase to $72,000 per FTE, up from $66,000 at the end of 2017. This growth is a direct result of our DigitalNow strategy, converting the lower automation BPO revenue into higher automation BPO revenue. I will discuss this transformation in more detail in the presentation and demonstrate how this strategy is positively affecting our business mix. Our revenue per FTE metric remains one of the highest amongst our peers in the BPO industry.

Now moving to profitability. Adjusted EBITDA increased double digits on both a quarterly and year-to-date basis. Adjusted EBITDA increased to $69 million or 24% on a year-over-year basis. Adjusted EBITDA increased 14% on a year-to-date basis. However, it could have been higher. Q3 was impacted by 2 main

factors totaling about [ $7 million ], which were lower project revenue in our LLPS segment and the exit of a low-margin contract. Also the increased market receptiveness to our DigitalNow strategy has exceeded all of our expectations, and therefore, we have accelerated our investments for future profitable growth. This key strategic initiative, when coupled with other factors I've just mentioned, will have a short-term impact on our adjusted EBITDA.

In consideration of these factors, we expect our full-year 2018 revenue to be between $1.58 billion and $1.59 billion, with a growth of 8.5% to 9% year-over-year. And we are now forecasting our adjusted EBITDA for the year to be between $280 million to $290 million. On a year-to-date basis, we have invested $60 million to drive growth and integration. This amount includes $47 million of optimization and restructuring expenses, $6.5 million spent on the acquisitions, net of cash acquired, and $6 million year-to-date in our customer-facing organization to accelerate growth. At the end of the third quarter, our liquidity was $124 million, including cash and cash equivalents as well as the revolver, which remains undrawn. Additionally, we have delivered $48 million in savings year-to-date.

Also in July, we went back to the debt markets and successfully repriced our term loan. We achieved a reduction of 100 bps in the interest rate spread on our term loan. This is an important step as we continue to work towards lowering the cost of our debt.

So in summary, as I look at our financial results, I'm pleased to see the continued trajectory of our growth.

Now let's turn to Slide #5 and discuss how our financial performance is driving our business and how we measure our success from a business scorecard. We have branded our location-agnostic, high-automation BPO services, Enterprise SaaS offerings and our BPA suite as DigitalNow. In October, we announced the signing of a contract which expands the relationship with an existing customer, a global bank, which we have worked with for over a decade. This contract is estimated to bring in $100 million in revenue spread over the next 3 years and is expected to kick off in early 2019.

Our strategy to grow within our good existing customers is working. We seek to build on our successful engagements to increase the number of statements of work and master service agreements. The results of this strategy is a broad and sticky revenue base. We have a low customer concentration and at the end of Q3, our Top 150 customers contributed 68% of our revenue. Now here's a couple of important facts to note, we now have 10 customers generating over $25 million in annual revenue. This is up from 8 at the end of Q2 and 6 at the end of 2017.

Another important highlight is that we now have 249 customers generating over $1 million in annual revenue, which is up from 200 customers at the end of 2017. This increase is clear evidence of our land-and-expand strategy to grow our top line. Additionally, I'm pleased to share with you that the investments we have made in our customer-facing organization have resulted in substantial increase to our pipeline, which is almost double from what it was last year. Consistent with our DigitalNow strategy, we are seeing an increasing proportion of pipeline from higher automation deals and we're adding additional work streams and revenue streams with existing customers.

Now let's move to Slide #6. Let me walk you through the Exela evolution over the past decade and how that journey has brought us to DigitalNow. We began as a pure play BPO company with a revenue base of approximately $150 million in 2007, and today, we have grown that revenue over 10-fold to approximately $1.6 billion rounding from our 2018 guidance, which represents a CAGR of 22%. Our revenue growth was a direct result of our strategy to evolve as our company and as a -- continuously to adapt to the changing markets and customer demands. From a pure-play BPO to today, we have worked to move up the value chain and inject technology to convert low automation BPO into a higher automation BPL through robotic process automation and digital transformation, which we now describe as DigitalNow. DigitalNow enabled additional streams of revenue within our existing customers. We transform our customers' operations over time using our proprietary BPA solutions for both on-site as well as off-site. This creates the opportunity for Exela to do more as our platform enables us to provide additional services and generate incremental revenue and profits.

Now let's turn to Slide #7. Based on research, today our total addressable market is about $161 billion as of the end of 2017, growing at a 5% CAGR increasing to $207 billion by 2022. Now Exela's growth is across key industries and among leading companies in banking, healthcare, insurance, and others. Among our 3,700 customers, we generate approximately $1.6 billion in annual revenue, which represents about 1% of the total addressable market for us. We look at the market like this, with only 1% share in a strategy of investing in the growing industries where we believe we can get the best yield, we are well positioned. We are expecting our growth to be between 8.5% and 9% in 2018 according to our guidance versus the 5% growth in the total addressable market. In banking and financial services for instance, research indicates that the total addressable market will expand from $12 billion to $54 billion from 2017 to 2022.

Today, banking and financial services represents less than $400 million in annual revenue. We have ample opportunities to capture more of this market as evidenced by our recent announcement of the incremental contract signed with the global bank that I just mentioned. The above total addressable market data does not include the in-house operations for the customers, which is a fertile ground for harvesting opportunities in our opinion. This was the case with this global bank that I just mentioned. So between the total addressable market estimates and our ability to take over in-house operations, we are really encouraged with the opportunity for growth that is in front of us.

Before I hand the call over to Jim for a discussion of the financials, I want to close with a few thoughts. Exela is on an exciting journey as we transform customer processes through DigitalNow. In the 9 months through 2018, our investments in growth are yielding positive results including double-digit revenue and adjusted EBITDA growth. We feel really good about how the business is shaping up.

And now I would like to hand the call over to Jim Reynolds, who will discuss our results, our financial results in greater detail. Jim?

**James G. Reynolds**
*Chief Financial Officer*

Thanks, Ron. Let's start with Slide 9. Third quarter 2018 revenue was $383 million, an increase of 7% from pro forma Q3 2017 revenue. Our third quarter EBITDA was $44 million, an increase of $144 million. Our adjusted EBITDA for the quarter totaled $69 million, up 24% from Q3 of 2017. Our EBITDA and adjusted EBITDA increased from last year, but it could have been higher in the quarter. Our third quarter was impacted by 2 items; we had lower project revenue in our LLPS segment and an exit from a low-margin contract, which will be good for us in the future. The cumulative impact to EBITDA in the quarter for these 2 items was approximately $7 million. As we've mentioned previously, we are, and we will continue to make investments in our customer-facing organization. We are on track this year to book-and-bill more than 2x our initial revenue growth rate of 3% to 4%. We are also very pleased seeing how our pipeline has transformed in size and increased in the number of high automation deals, which is consistent with our business strategy.

Looking at the bridge from EBITDA to adjusted EBITDA. Overall, adjustments are down. Walking through the bridge in the third quarter of 2017, we incurred $132 million in onetime charges, tied to the business combination to create Exela. The next adjustment in our walk is the optimization and restructuring charges. This item relates to our investments made to achieve cost savings. As part of our 2018 guidance, we committed to deliver between $40 million to $45 million in savings. To date, we have achieved, approximately $48 million.

In the third quarter of 2018, Exela incurred approximately $19 million in business optimization expense. A majority of these expenses impacted cost of sales. As part of the increased concentration of higher automation deals, we are incurring business optimization costs. We expect these costs to decline as we implement our transformational model. The last part of the box in the walk is Other, which primarily includes non-cash charges incurred on employee restricted stock units and the term loan debt reprice costs incurred.

To summarize, year-over-year transaction costs have gone away and the gap between EBITDA and adjusted EBITDA has narrowed significantly.

Moving to Slide 10. Our pro forma P&L. From a revenue segment perspective, ITPS revenue totaled $307 million in the quarter, up 10%. On a year-to-date basis, ITPS revenue totaled $949 million, up 14%. That increase is largely driven by our results from DigitalNow, some inorganic growth, offset by a decline in business with lower automation and an exit from a lower-margin contract. Healthcare revenue totaled $57 million in the quarter, up 1%. Year-to-date, healthcare revenue totaled $172 million, down 1%. We believe that healthcare is well positioned to grow in the near term, driven by a few recent wins. LLPS revenue totaled $19 million in the quarter, down 14%. On a year-to-date basis, LLPS revenue totaled $19 million, down 14%. On a year-to-date basis, LLPS revenue totaled $65 million, down 2%. As we have discussed, the results in this segment are event-driven and project-based. This segment has been impacted by the earlier settlement of a few cases.

Looking at cost of revenues, growth profit margins were lower due to higher business optimization expense incurred in the current quarter. We do expect the savings realization and continued transformation and ramp of contracts will improve gross margin in future periods. Looking to SG&A, on a year-over-year basis, excluding the impact of transaction costs, our SG&A declined due to the savings flow through. This was offset by continued investments in our customer-facing organization as well as higher costs associated with being a public company.

EBITDA improved by nearly $144 million compared to pro forma Q3 2017 and improved by $167 million year-to-date. Driving much of this improvement in EBITDA was the absence of costs related to the business combination, growth in the business and savings flow through. Our adjusted EBITDA increased by 24% to $69 million in Q3 of 2018, compared with $56 million in Q3 2017. On a year-to-date basis, the adjusted EBITDA increased by 14% to $208 million compared to $183 million for the comparable period.

Our net loss for the third quarter improved by $102 million on a year-over-year basis to a net loss of $29 million. Year-to-date, the net loss improved by $106 million. As a reminder, we have approximately $371 million of net operating loss carry-forwards available to offset pretax income. As of September 30, 2018, we have paid approximately $5.3 million in global cash taxes. In addition, our CapEx continues to be at the same levels as Q1 and Q2, around 2% of revenue.

Turning to the capital structure on Slide 11. On September 30, 2018, total liquidity was $124 million and net debt $1.383 billion. We had cash of $45 million, excluding restricted cash per our credit agreement, an undrawn a $100 million revolving credit facility, of which, $20.6 million was set aside for standby letters of credit. The net debt is up from June 30 due to increased working capital uses. In the third quarter of 2018, we purchased 225,504 shares of Exela common stock for about $1.1 million. Since we launched the buyback in Q4 of 2017, we have purchased in total 1,043,497 shares. Our buyback program remains in effect and we will continue to be opportunistic.

On the next slide, our updated business outlook. We expect our full-year 2018 revenue to be between $1.58 billion to $1.59 billion with a growth of 8.5% to 9% year-over-year. We are now forecasting adjusted EBITDA for the year to be between $280 million to $290 million, representing a year-over-year growth of 14% to 18%. This reflects the items we had discussed earlier. The higher end of our adjusted EBITDA range includes the potential SaaS high-contribution margin deals that are expected to be delivered by the end of the year, and may be recognized as revenue in 2018 depending on customer acceptance.

With respect to 2019, we will be dividing 2019 guidance as part of our year-end investor call. Until then, we have some items that you should take into consideration. We have discussed that the industries we're focused in are growing at approximately 5%. And we are growing above those rates. We are on track this year to grow our top line by approximately 8.5% to 9% with adjusted EBITDA margins of 17.6% for the 9 months ended September 30 and 18% in the recent quarter. We have also improved our adjusted EBITDA margin year-to-date by over 50 bps. With the investments we've made, the recent announced wins, we feel very good with how our business is shaping up as we exit 2018. Thank you.
And with that, operator, I would like to open up the call for questions.

# Question and Answer

**Operator**

[Operator Instructions] Today's first question will be from Joseph Foresi with Cantor Fitzgerald.

**Drew Kootman**
*Cantor Fitzgerald & Co., Research Division*

This is Drew coming on for Joe. I was hoping you could discuss the opportunity with DigitalNow and how you expect this to impact growth moving forward?

**Ronald Clark Cogburn**
*Chief Executive Officer*

So when you think about what we've done with our strategy to add higher automation work to lower automation BPO, as we started the year, we talked about business process automation, So if we take our business process automation, the digital transformation, and now, we use DigitalNow as sort of the descriptor for all of those things, as we go out to the market, the clear indicator to us of the interest in the market is how our pipeline has grown. So literally, from now -- from the last year until now, we have seen the pipeline more than double with these types of opportunities. And as you recall, I've mentioned in previous quarters, we found early acceptance in Q4 of last year with the interest in the pilots that begin to generate. So as we've come through this year, we're beginning to see some of those pilots turn into contracts and awards for us.

**Drew Kootman**
*Cantor Fitzgerald & Co., Research Division*

And then -- so with the lower forecast of adjusted EBITDA -- and I know you guys aren't talking about 2019, but I was wondering, if you can give any high-level -- just looking out at how you guys are viewing adjusted EBITDA margins? And then, does anything change on the synergy time line?

**James G. Reynolds**
*Chief Financial Officer*

Yes. So with respect to 2019, I think our message, we're finishing 2018 very well. If you look at the past year, we had initial guidance on the top line of 3% to 4%. And because of the acceptance of DigitalNow and the opportunities, we're going to finish the year very strong between 8.5% and 9%. If you're looking at EBITDA margins, we're looking at that, but if you look back at the past 4 quarters, our range and adjusted EBITDA has clearly been between 18% to 19%. We finished this quarter just at 18%. Our business, as you know, we have 90% visibility into our revenue. These are long-term contracts, other than the LLPS segment, which is a little lumpy. So we have really good visibility into our revenue and our contracts.

**Drew Kootman**
*Cantor Fitzgerald & Co., Research Division*

And anything changed on the synergy time line?

**James G. Reynolds**
*Chief Financial Officer*

No, I mean, if you look at the synergies, we continue to execute on them. We feel good. We have, as I said, had $47 million-plus completed this year. We'll continue to drive those synergies through the business. One of the things we had to discuss, we are making investments in the business to drive the revenue growth. It definitely does cost a little more to have higher revenue growth versus the 3% to 4%.

**Operator**

Next question will be from Brian Essex with Morgan Stanley.

**Brian Lee Essex**
*Morgan Stanley, Research Division*

I guess, I'd like to

[Technical Difficulty]

**Operator**

Pardon me, Brian. You're out of line. I had a lot of static. Maybe you would like to dial back in, we can get you back in. But the next question will be from Dan Dolev with Nomura.

**Dan Dolev**
*Instinet, LLC, Research Division*

So great stuff on the top line, I see you're raising the guidance. But if I look at -- if I think about EBITDA, it looks like you're -- you said -- I think you called out about $7 million of kind of tougher EBITDA drag, right, in the quarter. Is that correct, the $7 million for that low-budget contract?

**James G. Reynolds**
*Chief Financial Officer*

That's correct.

**Dan Dolev**
*Instinet, LLC, Research Division*

And I think you're raising at the mid -- you are lowering EBITDA by, I think with $17 million, $18 million and you also per my estimates, you do much better on the run rate of the savings, if you get $48 million days versus the $40 million to $45 million. So why take it down by debt margin, is it just debt or is there something else?

**James G. Reynolds**
*Chief Financial Officer*

Yes I think within the 2 items that impacted us, those are short-term in nature, but will continue to flow through in the fourth quarter. So that being said, we'll be able to make up some of that and we will continue to drive through the synergies. But I think we feel good with the range of $280 million to $290 million. We also have, as I said, some higher margin SaaS contracts that hit at the end of the year and we're expecting those all to flow through. So I think that between [ $80 million and $90 million ] we feel good about.

**Dan Dolev**
*Instinet, LLC, Research Division*

Is there an update on the savings, you were running at a $40 million to $45 million, now you're doing $48 million year-to-date?

**James G. Reynolds**
*Chief Financial Officer*

Yes, I mean we had guidance of $40 million to $45 million, we're above that. We'll continue to have some savings convert into Q4 and then we still have other initiatives underway that will help us in future periods.

**Operator**

The next question will be from Brian Essex with Morgan Stanley.

**Brian Lee Essex**
*Morgan Stanley, Research Division*

I don't know if it was just addressed, but I guess on a guide up in revenue, the guide down in EBITDA margins, could you help us -- maybe walk me through some of the puts and takes you have, what I would assume the better margin digital business, exiting a low-margin contract. I would assume that'll give you a lift to margins, but you're investing back in the business. Any sense for us to get a sense for in terms of both gross margin and EBITDA margin, how one time-ish are these investments or impact items, and how do we think about expansion from here on out?

**James G. Reynolds**
*Chief Financial Officer*

Sure. So if you take a look at the 2 items I mentioned, the LLPS and the on-site, that was a $7 million impact. And with the LLPS, those contracts in the on-site, it's gone. So it's not going to come back into Q4. So it has a carry-on effect. With respect to other incremental revenue, it's coming through, we have some high-margin revenue that we're anticipating coming in, in the fourth quarter related to our SaaS sales. It's happened historically. Through 2018, we feel good that we'll get some incremental flow through margin, but I think that a range of $280 million to $290 million is something we feel good about as we're exiting 2018.

**Brian Lee Essex**
*Morgan Stanley, Research Division*

And then as you reinvest back into the business, is there a level of EBITDA margins that you're committed to maintain? In other words, will you -- can you stay at this level, at the very minimum and then see margin expansion notwithstanding any kind of reinvestment or [ call back ]?

**James G. Reynolds**
*Chief Financial Officer*

Yes, and I think this is what I answered maybe when you dialing in. We -- if you look historically, the business has had the margins between 17% and 19% historically on an adjusted basis. We feel really good about those margins and that's why I referenced it towards the end of the call. As we continue to drive the new business wins, there'll be -- depending on some of these deals, they do have some upfront costs, so it may take a little time to work through the system and this is something we've discussed historically with the ramp. But we feel good about the margins and where they are. We're going to continue to deliver on the savings in addition.

**Operator**

[Operator Instructions] Next question will be from Matthew Roswell with RBC Capital Markets.

**Matthew Van Roswell**
*RBC Capital Markets, LLC, Research Division*

First question is, if I look at your revenue guidance for the year, it seems to imply that the fourth quarter is going to have slowing revenue growth as well. Could you walk through sort of what's driving that? And as part of that, do you have additional low-margin contracts that you're looking at getting out of?

**James G. Reynolds**
*Chief Financial Officer*

So I think that we gave the guidance of $1.580 billion to $1.590 billion, which is up over last quarter, that equates to $395 million to $405 million. Within our business, I think we've discussed before is, when we acquired Enterprise Solutions, they still had some low-margin business, but as we put in our technology and automation, we're looking to change that margin profile. This was an opportunity to get out of a contract that has shifted on us, and it was the right thing to do. So we are a public company and we prefer to have profitable contracts versus contracts that goes the other way.

**Matthew Van Roswell**
*RBC Capital Markets, LLC, Research Division*

And then, on a bigger picture, have you noticed in the last, call it, 6 months or so any change in client demand either for your products or sort of in the industry in general?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Well, so that's the right question to ask about the demand from the customers. And so we have to measure that in a couple of ways, but the biggest way is the growth of our pipeline. So -- and I think I mentioned this, maybe you heard a while ago, when we started in Q4 of last year with the story around automation and seen automation for us is going to be the, I guess location agnostic high, automation BPO services, the Enterprise SaaS offerings and our BPA suite, which we all -- we call that now DigitalNow, we began to find that there was an appetite in the market for this and that led to some pilot programs. So as we came into this year, we saw our pipeline begin to build at a very accelerated rate. As we sit here today for these types of digital services, it's literally twice what it was last year. So what we found is we went to our existing customers, when we went to our Top 150 customers, when we went to a -- what we call the Enterprise Solution customers, which is the old Novitex, it was well received, lots of interest, and so that's where you begin to see like this enterprise deal that I talked about. This is a $100 million contract spread over 3 years. It starts at the beginning of '19. We didn't have those types of opportunities before we started, I guess, broadcasting and sharing the vision for the DigitalNow. So we're very excited about where this is going.

**Matthew Van Roswell**
*RBC Capital Markets, LLC, Research Division*

And then, I guess as part of that are you seeing clients shift money around to more of the DigitalNow solutions or are you taking kind of a -- is it coming out of there sort of operating costs?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Well, look at it -- I was looking at it a little bit differently. So typically our competition is the in-house operations. So if you think about how they classify their own operational cost, we are approaching them that with the novel idea that we can come on-site and take over an entire operation like we've done with one of these large contracts, inject all of our DigitalNow technology or BPA suite, create automation, so now it becomes from low -- what I'll call low automation BPO to higher automation. So for them, this is a chance to offload large groups of employees that are providing a process within the company and allowing us to transform that over time. This does take a little while to do, 24 months to 36 months from now, we'll begin to see the full run rate of all of the automation that we're pushing through. So what you find is, whether it's a banking and financial services and insurance company, these are folks that are really interested in this type of operation, that's where we are finding the bigger opportunities.

**Operator**

Next question will be from Arun Seshadri with Credit Suisse.

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

Just a couple from me. First, I just wanted to get a sense for the extent -- how much free cash do you think you will generate in Q4 first. And then second, if you could sort of talk a little bit about 2019 at a high level, it sounds like you expect to continue to grow faster than your markets are growing. Some sense for sort of broadly EBITDA margins for 2019 versus '18?

**James G. Reynolds**
*Chief Financial Officer*

Sure. If you take a look, for the full year, when you take the range of EBITDA from $280 million to $290 million, right, we have CapEx. It's currently running up just about 2%, slightly higher. So you have CapEx of [ $135 million ]. You've got interest expense on the debt of $135 million, debt amortization of about $8 million. We're saying, cash taxes of $10 million, and we've done some M&A, net of cash, probably

$6.5 million. And then, we've spent about $47 million in Q3 on biz op. So that kind of gives you the math without Q4 biz op and working capital changes. But as you know, we generate a lot of cash. We've, year-to-date, made some tuck-in acquisitions. We've spent a little money on share repurchase, and we paid down some debt. So that's -- we feel good about the amount of cash that the company is generating.

**Arun A. Seshadri**
*Crédit Suisse AG, Research Division*

And then, could you make a comment about growth and margins in '19?

**James G. Reynolds**
*Chief Financial Officer*

Yes. So I mean, I think we're going to provide more updated guidance on our year-end call. But if you look at the statement, we kind of went through our industry. It's growing at 5%. We're growing well above that. We said we were going to go 3% to 4%, we're finishing the year 8.5% to 9%. And these contracts are long-term in nature. We have great renewal rates on our top line. So revenue based on what we have, the large contract we've sold, the size of our pipeline, we feel very good about 2019 as we're exiting '18.

**Operator**

Next question will be from David Phipps with Citigroup.

**David Lawrence Phipps**
*Citigroup Inc, Research Division*

When we looked at the ITPS gross margin specifically, that one declined quarter-to-quarter. Were there any special charges on from the 10-Q that were involved in that, so that the adjusted gross margin would be different, or is it somewhat of a mix with some of the new businesses going on, or maybe think around that?

**James G. Reynolds**
*Chief Financial Officer*

Sure. I think when we discuss some of the biz op and charges, a majority of them were in the ITPS segment. Out of the biz op, probably, 80% runs through our cost of sales and a majority really runs through the ITPS segment.

**David Lawrence Phipps**
*Citigroup Inc, Research Division*

And when you look at the new $100 million contract you added, it's a 3-year transaction. So it's about $8 million of revenue a quarter that were evenly spread. Is that the right way to look at it that it's kind of evenly spread on revenue, or does it accelerate as you get into the back end of years?

**James G. Reynolds**
*Chief Financial Officer*

So with this one -- we haven't talked about it a lot. But with this one, it will be more front-end loaded, I would say.

**David Lawrence Phipps**
*Citigroup Inc, Research Division*

And when you look out and some of the pipeline you're looking at right now, I'm sure, you've got a lot of deals and deal sizes that you're looking at, is there -- are there anything meaningful that remains out there to be closed over the next quarter or so?

**James G. Reynolds**
*Chief Financial Officer*

What I would say is, we've talked about our pipeline, how we're very pleased, how it's doubled in size and the type. If you look at the investments we've made, that's helped us a lot. We have seen opportunities we haven't seen historically, because we're a much larger company now. The combined company, close to $1.6 billion, we get invited to the table more often than not. So we're very pleased with our size, the size of the pipeline, the type of deals. And when you can get $100 million contracts, that helps a significant amount on a go-forward basis. As Ron also mentioned on the call, we now have over 10 customers with $25 million we're billing annually. That's up 2 customers from earlier, from the last quarter, and then, up 4 from last year. So our customers, we feel that we're getting a lot of traction in our land and expand. So we feel good.

**Operator**

At this time, this will conclude today's question-and-answer session. And with that, I'd like to turn the conference back over to Ron Cogburn for any closing remarks.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Yes. Thanks, everyone. We really appreciate you participating in the call today. We really appreciate the questions. We look forward to speaking to you and everyone on the year-end call. Thanks very much.

**Operator**
The conference is now concluded. We want to thank everyone for attending today's presentation. And at this time, you may now disconnect.

# Exhibit 8

S&P Global
Market Intelligence

# Exela Technologies, Inc. NasdaqCM:XELA FQ4 2018 Earnings Call Transcripts

## Monday, March 18, 2019 9:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ4 2018- | | | -FQ1 2019- | -FY 2018- | | | -FY 2019- |
|---|---|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS |
| EPS (GAAP) | (0.12) | (0.56) | NM | (0.02) | (0.57) | (1.09) | NM | (0.05) |
| Revenue (mm) | 401.40 | 399.60 | ▼(0.45 %) | 422.60 | 1588.22 | 1586.22 | ▼(0.13 %) | 1677.42 |

Currency: USD
Consensus as of Mar-15-2019 11:34 AM GMT


- EPS (GAAP) -

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| FQ1 2018 | (0.03) | (0.16) | NM |
| FQ2 2018 | (0.05) | (0.16) | NM |
| FQ3 2018 | (0.02) | (0.20) | NM |
| FQ4 2018 | (0.12) | (0.56) | NM |

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# Call Participants

**EXECUTIVES**

**James F. Mathias**
*Vice President of Investor Relations*

**James G. Reynolds**
*Chief Financial Officer*

**Ronald Clark Cogburn**
*Chief Executive Officer*

**ANALYSTS**

**Caroline Joyce**

**Dan Dolev**
*Nomura Securities Co. Ltd., Research Division*

**David Lawrence Phipps**
*Citigroup Inc, Research Division*

**Jared Levine**
*Cowen and Company, LLC, Research Division*

**Jonathan Lee**
*Morgan Stanley, Research Division*

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

**Marlane Pereiro**
*BofA Merrill Lynch, Research Division*

**Matthew Van Roswell**
*RBC Capital Markets, LLC, Research Division*

# Presentation

**Operator**

Good day, everyone, and welcome to the Exela Technologies Fourth Quarter 2018 Financial Results Conference Call. [Operator Instructions] And please note that today's event is being recorded. And I would now like to turn the conference over to Jim Mathias, Vice President of Investor Relations. Please go ahead.

**James F. Mathias**
*Vice President of Investor Relations*

Thank you, William. Good afternoon, everyone. Welcome to the Exela Technologies Fourth Quarter and Year-end 2018 Conference Call. I'm joined here today by Ron Cogburn, Exela's Chief Executive Officer; and Jim Reynolds, our Chief Financial Officer. Following prepared remarks made by Ron and Jim, we will take your questions.

Today's conference call is being broadcast live via webcast, which is available on the Investor Relations page of Exela's website, exelatech.com. A replay of this call will be available until March 25, 2019. Information to access the replay is listed in today's press release, which is also available on the Investor Relations page of Exela's website.

During today's call, Exela will make certain statements regarding future events and financial performance that may be characterized as forward-looking under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to known and unknown risks and uncertainties and are based on current expectations and assumptions. We undertake no obligation to update any statements to reflect the events that occur after this call, and actual results could differ materially from any forward-looking statements. For more information, please refer to the risk factors discussed in Exela's most recently filed periodic report on Form 10-K, along with the associated press release and company's other filings with the SEC. Copies are available from the SEC or Investor Relations page of Exela's website.

During today's call, we will refer to certain non-GAAP financial measures. We believe these non-GAAP measures provide additional information in how management views the operating performance of our business. Reconciliations between GAAP and non-GAAP results we discuss on today's call can be found on the Investor Relations page of our website. As a reminder, financial results discussed on today's call reflect pro forma combined company results for the business combination of SourceHOV Holdings and Novitex Holdings, which closed on July 12, 2017. Please note, the presentation that accompanies this conference call and an investor fact sheet are also accessible on the Investor Relations page of our website.

We will now begin by turning the call over to our CEO, Ron Cogburn. Ron?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Thanks, Jim. Good afternoon, and thanks, everyone, for joining us today. Let's start with Slide #4 and discuss our 2018 financial summary. We had a solid 2018 and achieved our revised guidance for both revenue and adjusted EBITDA. Our continued investment in developing industry-specific and departmental solutions as well as increased customer awareness are showing good results. Digital Now made the difference. In 2018, we achieved full year revenue growth of approximately $130 million and a 9% increase in revenue per FTE to $72,000. These investments and our increased customer awareness have helped achieve a growth rate of 14% on our top 200 customers. With low customer concentration and a high customer retention rate of 98%, our goal for 2019 and beyond is to replicate the success we had with our top 200 customers. We believe the large and growing addressable market we operate in provides us with substantial runway for growth and expansion with a focus on our existing customers. We are also committed to sensibly pursuing growth while deleveraging our balance sheet over time.

We reported a strong top line results for the year of $1.586 billion, an increase of 8.9% on a year-over-year basis, ahead of the industry growth rates. We recorded 15.7% growth in adjusted EBITDA to $283.8

million, and our continued focus on margins resulted in an increase of 110 basis points compared to 2017, reaching a 17.9% adjusted EBITDA margin. In addition to growing our top line and adjusted EBITDA, during the year, we executed on our savings initiatives, an important part of our ongoing strategy. During 2018, we achieved $64 million in savings, exceeding our initial goal of $40 million to $45 million. And here's an important fact: through a combination of the top line growth and achieving savings offset by investments we've made to drive growth and increased awareness, we successfully drove improvement on a year-over-year basis in our adjusted EBITDA margin. In response to the strong demand for Digital Now, we invested in converting pipeline into revenue. We see a meaningful opportunity or white space to expand our set of solutions we're providing to our customers as we reach new customer segments during 2019.

Beyond 2019, we believe the majority of our current remaining savings will be achieved, and our optimization and restructuring expenses will gradually decline. This result -- this will result increasingly in the convergence of adjusted EBITDA and EBITDA.

Looking ahead to 2019 and beyond, we are well positioned to generate long-term sustainable growth. Jim Reynolds will cover our outlook for 2019 in greater detail shortly. Additionally, we spent a lot of time speaking with our investors during 2018. And one recurring theme, which has come up many times is the need to reduce leverage, and we agree with that. Through a prudent use of cash and EBITDA growth, we are working to reduce our net leverage ratio by 5% to 7% this year. Over the long term, we're working to deleverage further and achieving leverage ratio that is more in line with our peer group.

Now let's turn to Slide #5 and look at the quarter. The fourth quarter provides the first clean quarter of quarterly comparison of Exela on a year-over-year basis. Revenue for the fourth quarter totaled $399.6 million compared to Q4 of 2017, which was $386 million, an increase of 3% on a year-over-year basis and a little more than 4% on a sequential basis. Adjusted EBITDA for the quarter totaled $75.3 million compared with Q4 of '17 adjusted EBITDA of $63 million, an increase of 20% year-over-year and an increase of 9% sequentially. Along with the growth we are generating on the top line, I was very pleased to see an improvement in fourth quarter adjusted EBITDA margin of 260 basis points to 19% compared to 16% in Q4 2017. That is significant. The financial metrics I've just highlighted are driven by a combination of a number of factors, including the impact that Digital Now efforts are providing as well as our focus on geographies and investments.

I want to walk through a few of these facts that are noteworthy. Remember the global bank customer we talked about that went live on January 1 of this year? In our ongoing discussions with this customer, they decided it was in their best interest to increase the contact -- contract duration by 2 years, resulting now in a 5-year contract term with a total contract value of approximately $165 million. Impressive and further proof that our strategy is working. Additionally, we won several new deals with the Digital Now strategy in 2018, including 2 of which that were enterprise-level. Both of these engagements were for global banks that were existing customers.

This year, we are also introducing Exela SmartOffice. SmartOffice is interconnected workplace technologies and services that power the office of the future today. These are complementary to our existing offerings, which helped transform the front office, energy and facilities management, logistics and fulfillment for our customers. SmartOffice will provide on-demand services with connected devices to facilitate green initiatives, reduce waste and ultimately enhance the employee, investor experience.

Now let's turn to Slide #6. Revenue per FTE is a metric we track very closely. We believe this metric demonstrates our effectiveness in applying solutions, to bring automation to our engagements and lower the variable cost. We have increased revenue per FTE overall by approximately 9% to $72,000 per FTE and 11% on an organic basis, which is up from $66,000 at the end of 2017. Our revenue per FTE metric is among the highest in our peer group in the BPO industry. Exela is driving growth without adding people, which is very unique for our industry. Looking closely at our headcount, we have been adding people to key areas, including sales, marketing, finance and other key areas throughout the organization. Where we have been effective in lowering headcount is within the operations of Exela by leveraging our technology strength.

Going forward, we see a significant opportunity to continue to grow our European footprint. We've recently opened an office in Amsterdam and launched our EMEA business strategy team. Amsterdam is a thriving tactile for cross-border collaboration, and our team there is driving Exela's growth, thought leadership and go-to-market execution. This model closely follows the model -- the successful model we implemented for Exela's U.S. business strategy team. Our Amsterdam team is well positioned to address the business process automation needs for our multinational customers. This office opening closely followed the opening of our innovation center in London.

Geographically speaking, the U.S. brings in the majority of our revenue. It's 85% during 2018 with 46% of our total headcount. The rest of the world generates 15% of the revenue with 54% of the total headcount. The effect of this revenue and headcount mixture is significant to the gross margin improvement potential as the automation story continues to unfold.

Now let's turn to Slide #7. Our strategy to grow within our existing customers is resonating as they're seeking solutions to drive change, realizing the benefits of digital transformation. In some cases, like the global bank example I just mentioned, after the customer understands the breadth of our platforms and solutions, they make the decision to outsource processes that have never been outsourced before in their organizations. These newfound avenues of opportunity are very significant to us. Our strategic deal teams are focused on identifying these opportunities to expand within our top customers, while partnering with them on their digital journeys. We seek to build on our successful engagements to increase the number of statements of work and master service agreements within these existing customers. We're discussing with our customers our platforms and solutions that address their mission-critical challenges such as our revenue cycle management, digital mailroom, recruit to hire, Exela robotics, enterprise information management, business process management, workflow automation, contract management and, of course, Exela SmartOffice, just to mention a few. We have a broad and sticky revenue base.

With low customer concentration at the end of Q4, our top 20 customers contributed 36% of our revenue. The top 100 contributed 61% of our revenue. The top 200 contributed 73% of our revenue. We have a great customer list with over 60% of the Fortune 100, and our ability to grow within these customers has a measurable and very positive result. Customer retention rates remain very high at 98%. With 85% of our revenues in America and an expanding presence in EMEA, which grew, by the way, 55% year-over-year, we're very optimistic about our prospects for 2019.

Today, the rest of the world generates only 15% of the revenue base on 2018. Closing 2018, we had 10 customers generating $25 million in annual revenue. Now this is up from 6 at the close of 2017. And another important highlight is we added 62 customers generating over $1 million in annual revenue in 2018, which now totals 259 customers. Now this is up from 197 at the end of 2017. This increase demonstrates the effectiveness of our efforts to grow within our existing customers and gain wallet shares. Additionally, I am pleased to share with you that the investments we have made in our customer-facing organization have resulted in substantial increase in our pipeline, effectively doubling it from last year. Consistent with our strategy, we're seeing an increasing proportion of the pipeline from higher automation deals, and we're adding additional work and revenue streams within the existing customers.

Now let's turn to Slide #8. Slide #8 covers the acceleration of Exela's growth and arguably is one of the most important slides in our presentation today. This slide illustrates what's possible and probable. Since Exela's inception less than 2 years ago, our efforts to grow were first focused with our top customers. They were the first to hear in detail about the combined scale and the solutions that Exela can provide. And with the investments we made in increasing customer awareness, the results have been impressive, accelerating the top line growth. Of note and a direct result of our focus in our strategy, our top 20 customers grew 22%, most of which is organic. This is amazing, and it's a demonstration of the opportunity among the remaining customers. The top 200 customers grew 14%, of which 11% was organic. And overall, Exela's consolidated growth rate was 9%, of which, 4% was organic. These results give us confidence in 2019 to replicate our top 200 strategy throughout the other customer segments and continue to invest in business development and increasing customer awareness.

In closing, before I hand the call over to Jim for a discussion of the financials, 2018 was a great year for Exela Technologies highlighted by our growth and continued rollout of our Digital Now suite of solutions.

We significantly expanded our presence in Europe, opening a sales office and an innovation center, and we achieved $64 million in saving initiatives. We're excited about 2019, which has gotten off to a great start with more opportunities and greater market penetration. We are looking forward to continuing to enable our customers on their digital journeys, and we believe Exela, with Digital Now, is well positioned for growth going forward.

And now I would like to hand the call over to Jim Reynolds, who will discuss our financial results in greater detail. Jim?

**James G. Reynolds**
*Chief Financial Officer*

Thanks, Ron. Before I start, I would like to let everybody know, we intend to file a Form 12b-25 notification of late filing with the U.S. Securities and Exchange Commission because we will be filing our annual report on Form 10-K for fiscal year 2018 after today's deadline. The filing of the Form 12b-25 grants an automatic 15-day extension for the filing of our annual report. We are postponing the filing because we experienced an unanticipated delay in completing certain requests -- requested accounting information relating to one of our tuck-in acquisitions we completed during 2018. This business is not material to our results. We anticipate our filing of Form 10-K prior to the expiration of the 15-day extension period.

Based on its review of the company's disclosure and control procedures, the company's management expects to conclude that the company's disclosure controls and procedures were not effective. Notwithstanding such weaknesses, the company's management expects to conclude that the consolidated financial statements to be included in the Form 10-K will present fairly, in all material respects, the company's financial position, results of operations and cash flows for the periods to be presented in the Form 10-K in conformity with GAAP.

Let's start with Slide 10. Fourth quarter revenue totaled $399.6 million compared to $386.3 million in Q4 of 2017, an increase of 3.4%. Our largest segment, ITPS, which represents 81% of our quarterly revenue, grew 7.6% on a year-over-year basis. Our Healthcare Solutions and Legal and Loss Prevention segments declined 6.2% and 22.6%, respectively. Fourth quarter adjusted EBITDA was $75.3 million and improved by $14.5 million or 20% from the fourth quarter of 2017. During the quarter, there were 2 noncash charges that impacted our results. First, in early 2018, we changed our go-to-market strategy and branding as Exela. As a result of this, we had to write off all of our legacy asset trade names during 2018. This increased our amortization expense by $7.1 million in the fourth quarter and $23.7 million for the year. Second, as part of our annual impairment test, we recorded a noncash charge of $48.1 million related to the impairment of goodwill and intangibles in our LLPS segment due to lower operating results.

For the full year 2018, revenue totaled $1.586 billion, an increase of 8.9%, when compared to 2017 on a pro forma basis. Revenue growth during the year was driven by our top 200 customers. We saw revenue in this group increased over 14% during 2018, well ahead of our consolidated growth rate. This is a result of the investments we made in the business development team, innovation centers and small tuck-in acquisitions, along with the positive impact of Digital Now business model.

From a revenue segment perspective, ITPS revenue totaled $1.274 billion in the year, up 12.6%. The increase in ITPS revenue is largely driven by our results from Digital Now and inorganic growth, which was approximately 5%. Healthcare Solutions revenue for 2018 totaled $228 million, a decline of 2.4%. The decrease was due to a decline in volumes from a single customer who lost a contract from one of its customers, offset by a ramp-up of our new business. In addition, we believe that the recent health care asset acquisition we announced in December will help drive growth in this segment. In our LLPS, revenue totaled $84.6 million, a decline of 7.7% for the year. As we have discussed, the results in this segment are event driven and project-based. The decrease is due to a lower net revenue from our legal claims administration services and approximately $4.5 million from the sale of a few noncore consulting practices. Gross margins were 23.7% in 2018 and impacted by higher business optimization expense incurred, which is primarily recorded in our cost of revenue. We expect ongoing impact to gross margins as we continue to deliver on the company's savings initiatives as well as continued digital transformation of our customer contracts. These actions will position us to improve gross margin in future periods.

SG&A for 2018 totaled $184.7 million and was 11.6% of revenue. The decline in SG&A is due to no-deal costs paid in 2018, impact from our savings flow through, and this was offset by our continued investment in our customer-facing organization as well as higher costs associated with being a public company.

Moving to taxes. As a result of the tax laws passed in 2018, the historical benefit we received from our ability to deduct interest on our debt was subject to limitations. This resulted in an increasing in our income tax expense of approximately $30 million during the year. From a cash perspective, we paid about $5.3 million in income taxes globally. At December 31, 2018, we have approximately $317 million of net operating loss carryforwards available to offset pretax income. Our adjusted EBITDA for the year totaled $283.8 million, an increase of 15.7% and our adjusted EBITDA margin for 2018 improved to 17.9% or 110 basis points.

Moving to Slide 11. Looking at the bridge from EBITDA to adjusted EBITDA. The first box in the bridge is other, which includes noncash charges of $49.2 million and $122.5 million on debt extinguishment cost and impairment of the LLPS business in 2018 and 2017. The remainder of these costs relate to employee stock option expense and asset disposal costs.

The next adjustment in our walk is the optimization and restructuring charges. This item relates to our investments made to achieve cost savings. During 2018, optimization and restructuring expense totaled $68.2 million for the year and $21.2 million in the fourth quarter. The breakout of the fourth quarter consisted of $14.2 million in headcount cost, $6.2 million in vendor-related cost and $0.8 million in facility cost. We believe 2018 represented the high watermark in terms of optimization and restructuring expenses. And in time, we expect these costs to gradually decline as we implement our transformational model. The final adjustment is the transaction integration costs, which are -- were incurred to create Exela in the third quarter of 2017.

To summarize, the gap between EBITDA and adjusted EBITDA narrowed by $142.5 million in 2018. This is consistent with our goal to have adjusted EBITDA and EBITDA to converge over time.

Turning to the capital structure on Slide 12. On December 31, 2018, total liquidity was $116 million, and net debt was $1.402 billion. We had cash of $44 million, excluding restricted cash per our credit agreement, and an undrawn $100 million revolving credit facility, of which, $20.6 million was set aside for standby letters of credit. Our buyback program remains in effect, and we will continue to be opportunistic. Since we launched the buyback in 2017, we have purchased in total approximately 2.5 million shares.

On the next slide, our business outlook. We expect our full year 2019 revenue to be in the range of $1.66 billion to $1.7 billion, resulting in growth of 5% to 7% year-over-year on a constant currency basis. For the first quarter of 2019, we estimate revenue to be between $405 million to $415 million. For 2019, adjusted EBITDA for the year to be between $305 million to $335 million, representing a year-over-year growth of between 7% to 18%. CapEx is expected to be between 2% to 2.5% of revenue. Our capital allocation for 2019 is a priority to pay down debt. Our goal is to reduce the net leverage between 5% to 7%. This reduction will be achieved through a combination of growth in EBITDA and using cash to pay down debt.

In closing, we had a solid 2018 and are pleased with our results.
That concludes our formal comments. Operator, let's open the queue up for questions.

# Question and Answer

**Operator**

[Operator Instructions] And today's first questioner will be Joseph Foresi with Cantor Fitzgerald.

And our next questioner today will be Brian Essex with Morgan Stanley.

**Jonathan Lee**
*Morgan Stanley, Research Division*

It's Jonathan on for Brian. Your fiscal '19 guidance implies deceleration of revenue growth. Can you walk through that?

**James G. Reynolds**
*Chief Financial Officer*

So I think if you look at the revenue growth, right, we're currently guiding 5% to 7%. We feel really good about the results from Digital Now. And of course, when you look at our revenue growth for 2018, approximately 5% was inorganic. So when we're quoting our 2019 guidance, we're looking at organic growth, which would be an increase from the 4% reported.

**Jonathan Lee**
*Morgan Stanley, Research Division*

Got it. And last quarter, you talked about market growth in the BPO space. Where do you fall relative to that for fiscal '19?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Well, this is Ron. We're still a really small part of that addressable market. If you remember, we're just a little over 1%. We feel really good about the industries that we serve, the banking and financial services and insurance and health care are our largest 2 segments. And between those 2, they have growth between 5% and 6%. So we feel very comfortable on where we sit with those 2 industries.

**Operator**

And our next questioner today will be Dan Dolev with Nomura.

**Dan Dolev**
*Nomura Securities Co. Ltd., Research Division*

Can you hear me?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Yes.

**James G. Reynolds**
*Chief Financial Officer*

Yes, we can.

**Dan Dolev**
*Nomura Securities Co. Ltd., Research Division*

I'm actually going to take the other side of this trade. So I mean, your guidance is very, very strong. I feel like it's above our numbers for next -- for 2019, and it looks like, as you said, it's accelerating on an

organic basis. And also EBITDA, the EBITDA guidance seems above our numbers. Can you maybe give us a sort of the level of confidence you have in achieving that guidance?

**James G. Reynolds**
*Chief Financial Officer*

Sure. Thanks, Dan. As we've discussed historically, we typically have about 90% visibility into the next 12 months. With respect to the revenue, if you remember, we have somewhat of a wide range, but back in the fall, we announced the transaction with a large bank. That contract ramped up at the beginning of the year, so we're very pleased with that. In addition, at the end of December, we closed a health care acquisition that will also help drive the results for 2019.

**Operator**

Our next questioner today will be Matthew Roswell with RBC Capital Markets.

**Matthew Van Roswell**
*RBC Capital Markets, LLC, Research Division*

Two questions. First, a numbers question, and I'm sorry if I missed it. Do you have the fourth quarter kind of apples-to-apples organic growth? I know you gave it for the full year just now.

**James G. Reynolds**
*Chief Financial Officer*

I don't have that readily available, sorry.

**Matthew Van Roswell**
*RBC Capital Markets, LLC, Research Division*

Okay, that's fine. Maybe we can circle back later. And then, I guess, the second question is, it looks like you did not sign any large clients in the quarter, but I was wondering if you can talk about the possibility and what sort of number that you're thinking about for FY '19.

**Ronald Clark Cogburn**
*Chief Executive Officer*

That's not exactly what we said, Matthew. When you think about it, we talked about 2, what we call, enterprise deals that we signed late last year. We didn't identify the fourth quarter, we typically don't give guidance per quarter, but those 2 enterprise deals were for global banks that were existing customers in which we were able to kind of process the land-and-expand strategy that we've used so well. We also talked about early this year the health care assets. So we have -- and if you'll remember, I also mentioned our pipeline effectively has doubled in the last year for these types of engagements that are related to Digital Now or the expansion of the digital journey for our customers. So we feel very strongly about that.

**Matthew Van Roswell**
*RBC Capital Markets, LLC, Research Division*

Okay. Maybe I missed it, the number of clients with more than $25 million of annual revenue, was it 10?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Yes, it's 10 growing from 6 in 2017.

**Matthew Van Roswell**
*RBC Capital Markets, LLC, Research Division*

Right. And, I guess, I had 10 as of the end of the third quarter, but obviously, the large bank contract didn't ramp up until '19 -- till January?

**Ronald Clark Cogburn**

*Chief Executive Officer*

That's right.

**Operator**

And the next questioner today will be Joseph Foresi with Cantor Fitzgerald.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

Can you hear me okay?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Yes, Joe.

**James G. Reynolds**
*Chief Financial Officer*

We can now, Joe.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

Maybe they didn't like my question, so they muted me. Sorry about the phone problem. Anyways, you mentioned the pipeline doubling, but the growth rate kind of year-over-year is fairly consistent. So what can you tell us about sort of the conversion rate? Is it an element of conservatism on the top line and expectations for next year? Have conversion rates changed? Is there anything in the top line we should know about?

**James G. Reynolds**
*Chief Financial Officer*

Yes. I think -- thanks for the question, Joe. I mean, we feel good about our conversion rates. I think the size of the pipeline is strong. And just like this year, for the full year, we actually hit our revised -- upward revised revenue guidance. So we have great visibility into the revenue and feel pretty good. I think, as we're still a new public company, 18 months or so, and we're trying to be somewhat conservative as we look at the potential for Digital Now, which is gaining traction in our front office. So we'd rather come out feeling good with that 90% visibility on the top line.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

Okay. And then just on the first quarter, I think you said it was $405 million to $415 million. If I run that through the year, it sort of puts you at the bottom end of that top line guidance. How should we think about seasonality around the numbers heading into next year?

**James G. Reynolds**
*Chief Financial Officer*

Sure. Typically, what happens from a seasonality perspective, we have a strong transaction volume that starts to hit at the end of Q1 and into the second quarter. Third quarter tends to come down a little bit. We're going to be a little more impacted. If you remember, now Europe makes up about 15% of our total revenue for the year, so people do go on vacation, I guess, over there. And then for Q4, we tend to see an uptick as people are spending budgets. And then within health care, most of the time, people have hit their deductibles, so the transactions tend to increase along with open enrollment.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

Got it. And then on the margin guidance, I think it's $305 million to $335 million. What puts you at the top end versus the low end on the margin side?

**James G. Reynolds**
*Chief Financial Officer*

So what gets us there is really the flow-through on our savings. That's one of the things we've been working on since we launched the transaction. We feel good about it, so it's a combination of that. And then the type of deals that we close and how quickly we can achieve the margin. There is still costs we need to take out on some of these tuck-in acquisitions, and we're looking to change that margin profile as we implement our suite of technology.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

Got it. So I mean, if I extrapolate that, it sounds like the margins will sort of gradually improve throughout the year, is that fair?

**James G. Reynolds**
*Chief Financial Officer*

We don't give quarterly guidance. But that's -- it's throughout the year as we continue to implement it.

**Joseph Dean Foresi**
*Cantor Fitzgerald & Co., Research Division*

Okay. And then last question from me, any thoughts around how we should think about this by business line? Anything you want to point out on specific contracts? I know you've got the ITPS and the health care legal. But maybe you could just talk a little bit about sort of your expectations for both businesses.

**James G. Reynolds**
*Chief Financial Officer*

So where I would say is, from an industry's perspective, we're really strong in banking and finance, which is where ITPS rolls into. From a health care perspective, we feel very strong, but that's clearly just health care payer and provider business, which we've invested in with this deal we closed in December. We look to expand within both segments. They're strong and growing. And then within our legal, that's still event-driven. We've invested but not as much as we've invested in our other 2 industries that we're really focusing on.

**Operator**

And our next questioner today will be David Phipps with Citigroup.

**David Lawrence Phipps**
*Citigroup Inc, Research Division*

Could you talk a little bit about the acquisition that you made, the health care acquisition? Kind of give us a size for sales maybe or what components that might exist maybe through the health care or the ITPS businesses?

**James G. Reynolds**
*Chief Financial Officer*

So what I would tell you, it helps us round out our health care solution. We perform a fair amount from the beginning when the claim is incurred all the way through to the coding and then delivery. So it just helps out round out incremental volumes. It's really an exciting relationship that we have as a result of that transaction.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Yes. It's Ron. Let me give you a little more detail. What this does, it covers several of the services that we already provide, the medical coding, records management, claims payment, processing, dispute resolution. We added 250 employees globally when we did this acquisition, and it puts us squarely as a growth trajectory for our Healthcare segment for this year. So we're very excited about this acquisition.

**David Lawrence Phipps**
*Citigroup Inc, Research Division*

And could you talk a bit about the -- some of the cash impacts of not being able to deduct the interest, do we look forward into 2019 or -- as we had in 2018?

**James G. Reynolds**
*Chief Financial Officer*

Sure. We -- if you think about it, we still have about $317 million of net operating losses, which are shielding us from any cash taxes. So we still anticipate, similar to this year, majority of that disallowance to be sheltered with our NOLs. So we feel there will still be cash taxes between $7 million and $10 million.

**David Lawrence Phipps**
*Citigroup Inc, Research Division*

I know you don't give quarterly guidance. But last year, from fourth quarter to first quarter, you had a big jump in both sales and margins. Is there anything in particular that would be different from that going forward this year?

**James G. Reynolds**
*Chief Financial Officer*

I think all I would say is typically, towards the end of the year, in fourth quarter, there's a lot of spending that goes on under use it or lose it budgets. So I mean that -- we typically see a benefit from that aspect. And typically in Europe, there's a solid push.

**David Lawrence Phipps**
*Citigroup Inc, Research Division*

Okay. And then final question. You delayed the 10-K, that's pretty standard, you have that out in the next 15 days. Could you talk a little bit about the controls and procedures language that you have there?

**James G. Reynolds**
*Chief Financial Officer*

I think all I would say is under the rules, this is our first year of SOX compliance, which is highly complicated when you put together companies through acquisitions to achieve and have enough time to actually test all the controls that are operating. So it's kind of it's either there or it's not. We feel good in our ability to address the control deficiencies. And I think, as I said, we feel good that, from a standard perspective, we have no issues within our numbers.

**Operator**

And our next questioner today will be Marlane Pereiro with Bank of America Merrill Lynch.

**Marlane Pereiro**
*BofA Merrill Lynch, Research Division*

I just have a very quick one. When you were talking about your leverage, can you just repeat again, my connection was a little bit out, of where you see leverage going? And could you also just indicate roughly what the leverage target range is that you're comfortable with running the business?

**James G. Reynolds**
*Chief Financial Officer*

Sure. When I was talking about 2019, our capital allocation is to pay down debt this year. And our goal is to reduce our leverage to be between 5% to 7%. It will be achieved through a combination of our growth in EBITDA and using cash to pay down the debt. From a leverage ratio, what we like to do is get more in line with our peers, which we've quoted historically is around 3x.

**Operator**

And our next questioner today will be Jared Levine with Cowen.

**Jared Levine**
*Cowen and Company, LLC, Research Division*

Are there any notable changes you've been noticing in the competitive environment? And then I just have one follow-up question.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Yes, Jared, this is Ron. At the end of the day, a lot of folks are looking to provide the services that have, what we'll call, technology-enabled or AI or cognitive. And these are all things that we have built ourselves and deployed through our platforms for years. When we go forward in the market now, our Digital Now strategy is a combination of our existing technologies along with the automation that we've talked about, whether it's business process automation or AI. And it allows us to have, I would say, a stickier relationship or deeper relationship. And as our customers adopt this Digital Now strategy, the higher they go the technology stack, the stronger the relationship we have with them. As an example, when you look at our top 20 customers, the average tenure now is well over 15 years. It's only possible with the technology that we've built and that we provide that's proprietary and the automation that we continually roll out year after year.

**Jared Levine**
*Cowen and Company, LLC, Research Division*

And then in terms of your innovation center builds, are you seeing any successes with the sales strategy?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Oh, yes. So here's the beautiful thing -- have you been to one of the innovation centers?

**Jared Levine**
*Cowen and Company, LLC, Research Division*

Yes, the New York City one.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Okay, yes. So that was our first one. That was sort of the showcase. We brought customers -- many customers through the Charles Street, New York location, through the Dallas location, through London's Shard. And what happens, if you're a customer, and we -- typically, our customers that we talked about that group that's over $1 million, so they're the prime target. So we're doing 1 or 2 things for them. And maybe, their competitors -- not competitors, but other folks in the same industry, we do several things for a larger enterprise customer, we're able to showcase for them in real time through demonstrations, the demos, live demos, all the technology we're trying to offer to them that meet the requirements for their particular services. When we do that in that environment, we're able to have a very active and interactive dialogue with them about the benefits, the features and how you go-to-market with the services we provide, say, these services are pointed toward consumers. And if it's banking or insurance, we're able to help them in their marketing with their customers.

**Operator**

And the final questioner for today will be Arun Seshadri with Credit Suisse.

**Caroline Joyce**

This is Caroline Joyce on for Arun today. Just a few. First, how do you expect the GAAP EBITDA range to be in 2019?

**James G. Reynolds**
*Chief Financial Officer*

So we haven't given out any guidance on a GAAP perspective. What I will tell you is with the range that we've given for 2019, we still expect some business optimization costs to occur. As we transition our existing customers and the new contracts, we'll have similar amount of noncash charges, which is primarily related to our stock option plan and our RSUs that have been granted. So that's kind of how it looks.

**Caroline Joyce**

Okay, great. And then, I guess, on that same line, could you outline at all what you expect for transaction and integration and then optimization and restructuring expenses for 2019?

**James G. Reynolds**
*Chief Financial Officer*

We have not given guidance to that number. What I will tell you is we're still going to be incurring these as we have continued to take on tuck-in acquisitions. There's still work to be done there. And as we roll out our technology, we're still incurring a duplicate cost associated with this rollout.

**Caroline Joyce**

Okay, great. That makes sense. And then lastly, just sequentially, it seems like the gap between EBITDA and adjusted EBITDA increased a little. Could you guys talk about that from a sequential standpoint?

**James G. Reynolds**
*Chief Financial Officer*

So I think the big thing that really impacted us during the year were some noncash charges related to impairment and additional amortization that were recorded, that are onetime in nature, that have no cash impact.

**Operator**

And this will conclude our question-and-answer session. I would now like to turn the conference back over to the CEO, Rob Cogburn (sic) [ Ron Cogburn ], for any closing remarks.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Thanks. We really appreciate everybody participating in the call today, and we really appreciate the questions. You know you can follow up with us directly after this, and most of you do. If you haven't had the chance to visit one of our innovation centers, please reach out to Jim Mathias, and let us know. We'd love to host you and your team at one of these centers. It will make a meaningful impact.

Thanks for participating, and we'll see you on the next quarter's call. Thank you very much.

**Operator**
The conference has now concluded. Thank you all for attending today's presentation, and you may now disconnect your lines.

# Exhibit 9

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-K

**(Mark One)**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2018**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission File Number: 001-36788**

# EXELA TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Delaware**<br>(State of or other Jurisdiction Incorporation or Organization) | **47-1347291**<br>(I.R.S. Employer Identification No.) |
| **2701 E. Grauwyler Rd.**<br>**Irving, TX**<br>(Address of Principal Executive Offices) | **75061**<br>(Zip Code) |

Registrant's Telephone Number, Including Area Code: **(844) 935-2832**

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange On Which Registered |
|---|---|
| Common Stock, Par Value $0.0001 per share | The Nasdaq Stock Market LLC |

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the Registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer ☐ | Accelerated filer ☒ | Non-accelerated filer ☐ | Smaller reporting company ☒<br>Emerging growth company ☐ |

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

The aggregate market value of the Registrant's voting common equity held by non-affiliates of the Registrant, computed by reference to the price at which such voting common equity was last sold as of June 30, 2018, was approximately $97,579,074 (based on a closing price of $4.75). As a result, the Registrant is an accelerated filer as of December 31, 2018. For purposes of this computation, shares of the voting common equity beneficially owned by each executive officer and director of the Registrant disclosed in the Registrant's Definitive Proxy Statement on Schedule 14A, filed with the SEC on May 9, 2018 were deemed to be owned by affiliates of the Registrant as of June 30, 2018. Such determination should not be deemed an admission that such executive officers and directors are, in fact, affiliates of the Registrant or affiliates as of the date of this Annual Report on Form 10-K. As of March 11, 2019, the Registrant had 150,142,095 shares of common stock outstanding.

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### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included in this Annual Report on Form 10-K ("Annual Report") are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by words such as "may", "should", "would", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "seem", "seek", "continue", "future", "will", "expect", "outlook" or other similar words, phrases or expressions. These forward-looking statements include statements regarding our industry, future events, the estimated or anticipated future results and benefits of the Novitex Business Combination, future opportunities for the combined company, and other statements that are not historical facts. These statements are based on the current expectations of Exela management and are not predictions of actual performance. These statements are subject to a number of risks and uncertainties regarding Exela's businesses, and actual results may differ materially. The factors that may affect our results include, among others: the impact of political and economic conditions on the demand for our services; the impact of a data or security breach; the impact of competition or alternatives to our services on our business pricing and other actions by competitors; our ability to address technological development and change in order to keep pace with our industry and the industries of our customers; the impact of terrorism, natural disasters or similar events on our business; the effect of legislative and regulatory actions in the United States and internationally; the impact of operational failure due to the unavailability or failure of third-party services on which we rely; the effect of intellectual property infringement; and other factors discussed in this report under the headings "Risk Factors", "Legal Proceedings", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and otherwise identified or discussed in this Annual Report. You should consider these factors carefully in evaluating forward-looking statements and are cautioned not to place undue reliance on such statements, which speak only as of the date of this report. It is impossible for us to predict new events or circumstances that may arise in the future or how they may affect us. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this report. We are not including the information provided on the websites referenced herein as part of, or incorporating such information by reference into, this Annual Report. In addition, forward-looking statements provide Exela's expectations, plans or forecasts of future events and views as of the date of this report. Exela anticipates that subsequent events and developments will cause Exela's assessments to change. These forward-looking statements should not be relied upon as representing Exela's assessments as of any date subsequent to the date of this report.

### DEFINED TERMS

In this Annual Report, we use the terms "Company", "we", "us", or "our" to refer to Exela Technologies, Inc. and its consolidated subsidiaries, and where applicable, our predecessors SourceHOV and Novitex prior to the closing of the Novitex Business Combination. "Following is a glossary of other abbreviations and acronyms that are found in this Annual Report."

"*Apollo"* means Apollo Global Management, LLC, together with its subsidiaries and affiliates, as applicable

"*BPA"* means business process automation.

"*BPO"* means business process outsourcing

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Common Stock*" means the common stock of the Company, par value $0.0001.

"*EIM*" means enterprise information management,

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

"*GAAP*" means generally accepted accounting principles in the United States.

"*HGM Group*" means, collectively, HOVS LLC and HandsOn Fund 4 I, LLC and certain of their respective affiliates.

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"*HITECH Act of 2009*" means the Health Information Technology for Economic and Clinical Health Act, enacted under Title XIII of the American Recovery and Reinvestment Act of 2009.

*"HIPAA"* means the Health Insurance Portability and Accountability Act of 1996.

*"IT"* mean information technology.

"*JOBS Act"* means the Jumpstart our Business Startups Act.

"*MegaCenter"* means the Company's Tier-III document processing and outsourcing centers in Windsor, Connecticut, and Austin, Texas.

"*Nasdaq*" means The Nasdaq Stock Market.

"*Novitex*" means Novitex Holdings, Inc., a Delaware corporation.

"*Novitex Business Combination*" means the transactions contemplated by the Business Combination Agreement, which closed on July 12, 2017 and resulted in SourceHOV and Novitex becoming our wholly-owned subsidiaries and the financing transactions in connection therewith.

"*Novitex Business Combination Agreement*" means that certain Business Combination Agreement, dated February 21, 2017, among Quinpario Merger Sub I, Inc. ("SourceHOV Merger Sub"), the Company, Quinpario Merger Sub II, Inc. ("Novitex Merger Sub"), SourceHOV, Novitex, HOVS LLC, HandsOn Fund 4 I, LLC and Novitex Parent, L.P., as amended by that certain Consent, Waiver and Amendment, dated June 15, 2017, by and among the Company, SourceHOV Merger Sub, Novitex Merger Sub, SourceHOV, Novitex, Novitex Parent, Ex-Sigma LLC, HOVS LLC and HandsOn Fund 4 I, LLC.

"*Novitex Holdings*" means Apollo Novitex Holdings, L.P., a Delaware limited partnership, which is owned and controlled by certain funds managed by affiliates of Apollo.

"*Novitex Parent*" means Novitex Parent, L.P., a Delaware limited partnership, which is owned and controlled by certain funds managed by affiliates of Apollo.

"*PCIDSS*" means the Payment Card Industry Data Security Standard.

"*PIPE Investment*" means the sale of shares of Common Stock in the private placement transaction of Common Stock entered into in connection with the Novitex Business Combination.

"*Quinpario*" means Quinpario Acquisition Corp. 2, a Delaware corporation.

"*SEC*" means the United States Securities and Exchange Commission.

"*Securities Act*" means the Securities Act of 1933, as amended.

"*SourceHOV*" means SourceHOV Holdings, Inc., a Delaware corporation.

"*TCJA*" means the Tax Cut and Jobs Act.

"*TPS*" means transaction processing solutions.

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# PART I

## ITEM 1. BUSINESS

Exela is a business process automation leader leveraging a global footprint and proprietary technology to help turn the complex into the simple through user friendly software platforms and solutions that enable our customers' digital transformation. We have decades of expertise earned from serving many of the world's largest enterprises, including over 60% of the Fortune® 100 and in many mission critical environments across multiple industries, including banking, healthcare, insurance and manufacturing. For the fiscal year ended December 31, 2018, we generated $1.586 billion of revenue from over 4,000 customers throughout the world.

*Exela's portals provide on-demand multi industry and departmental solutions and services alongside industry specific solutions.*

Our solutions and services touch multiple elements within a customer's organization. We use a global delivery model and primarily host solutions in our data centers, on the cloud or directly from our customers' premises. Our approximately 22,000 employees as of December 31, 2018 operate from business facilities in 23 countries, with some of our employees co-located at our customers' facilities. Our solutions are location agnostic, and we believe the combination of our hybrid hosted solutions and global work force in the Americas, Europe, Asia and Africa offers a meaningful differentiation in the industries we serve and services we provide.

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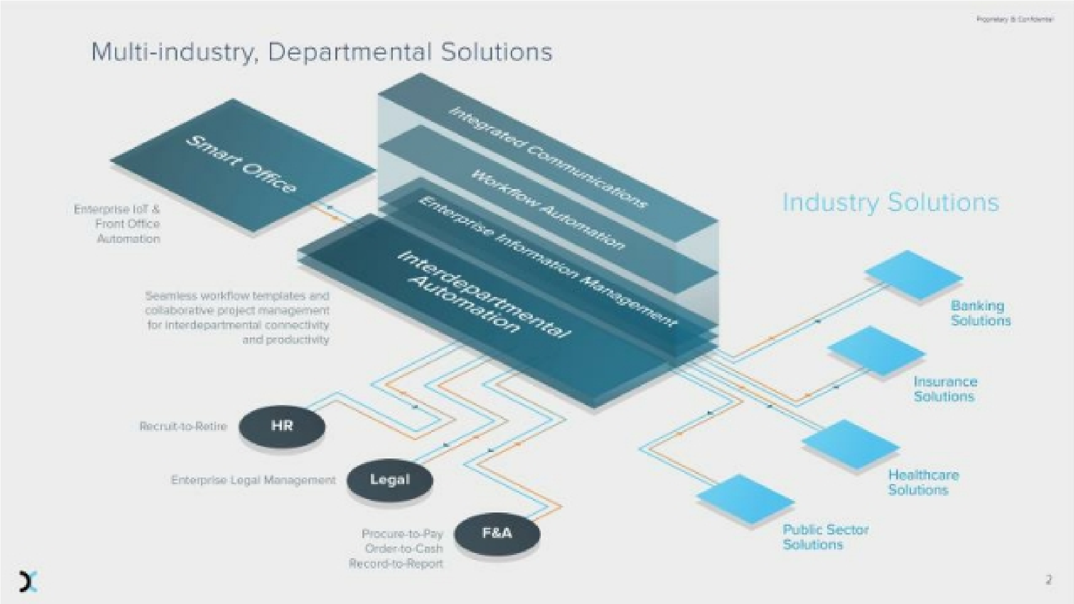
We will continue to further expand our solutions and services for the industries we serve, with a focus on connecting the front, middle and the back office. We believe this positions us as one of the few companies that can offer solutions and services that span from multi-industry, departmental solutions to industry specific solutions.




**Our Solutions and Services**

Our suite of offerings combines platform modules for finance and accounting services, enterprise information management, robotic process automation, digitial mailroom, business process management and workflow automation, visualization and analytics, contract management and legal management solutions, and integrated communication services which contribute to revenues across our organization and accounting segments and also complement our core industry solutions for banking, insurance, healthcare and the public sector.

***Finance and Accounting Solution (F&A)***

Exela offers a suite of finance and accounting ("F&A") solutions addressing the payments lifecycle from procure to pay ("P2P") and record-to-report ("R2R") to order to cash ("O2C"). We use our own technology and our global operations to deliver these solutions.

Our P2P services can be integrated with our digital mail room technology, which expands our ability to support existing data types and formats. In effect, both digital and analog items can enter this information stream. The process kicks off by opening of a requisition, once approved it moves to procurement to solicit bids from an approved supplier network. We believe that supporting our customers by making available our supplier network can be a key differentiator in enabling a complete P2P solution. Our P2P platform also records receipt of goods and invoices and performs three way matching digitally. Exceptions are processed by our employees, and once approved, we record the purchase in a customer's enterprise resource planning ("ERP") system, so it can be paid. We then use our system to generate and deliver a payment file in the format the bank needs so a payment can be processed. Some of our customers also authorize us to process the payment on their behalf.

Our O2C solutions enable consolidation of inbound payment channels and data continuity to drive digital adoption and enhanced treasury management including, integrated receivables dashboards, multi-channel bill

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presentment and payment, reconciliation, exception and dispute management, aging analytics, collections management and targeted engagements. The full process includes fulfillment of a customer order, raising an invoice according to customer contracts, accounts receivable management and collections. Our mission is to continue to expand our offerings such that we can act as single vendor for these services among our customer base.

Our F&A services include spend analytics and data mining tools for financial planning and analysis to support reporting and audit functions, interchanges and robotics providing automation of ERP entries and regulatory reporting, fixed asset management and tax benefits management.

***Enterprise Information Management (EIM)***

Exela's enterprise information management solutions ingest and organize large amounts of data across many data types and formats and store the information in cloud enabled proprietary platforms. We also gather transactional data from enterprise systems for similar hosting. The collected, extracted data is used to complete a process, and is then made available to our customers and their end-consumers for an agreed upon period of time. We derive revenue for such hosting and access.

Our EIM systems host billions of mission critical records for our customers and the total number of records is rising. An example of a large deployment of our EIM platform is to enable online records access to over 48 million end-customers of a group of European savings banks for deposits, statements, and car and personal loans and mortgages. Another example of EIM deployment is in the hosting of images of healthcare records, checks and payroll taxes for many years for compliance and internal information purposes.

We often host both digital and paper records for our customers, and offer release of information services according to guidelines set by our customers. For example, in litigation we will release documents upon receipt of a valid subpoena served on our customer or when a patient switches hospitals and requests access to healthcare records from their previous hospital. We provide these records in the form requested, including chain of custody information. Increasingly, these records are accessed electronically or being delivered in line with green initiatives.

Our platforms can be integrated with customers' existing EIM systems, and our customers can benefit from being able to conduct federated searches across connected datasets, manage records in accordance with business needs and regulatory requirements, build live customer and employee profiles, and facilitate release of information and routing with control over security and permissions. We also provide business intelligence add-ons, offering summarization of data sets, dashboards and trend monitoring, relationship visualization, macro and micro drill-down, escalation triggers and notifications.

***Exela Robotic Process Automation***

Exela has been at the forefront of using robotic process automation since 2009. Our deployment model is to use desktop automation first, and if the usage is very high we usually migrate to server level automation. We have built up a large library of rules by industry and by customer. While we have been using robotic solutions as part of our internal processes for years, only recently have we made them available to our customers. Our domain experts and analysts can either use an existing bot, modify one or create new one using our design studio. Our robotic solutions are available as programmable robots with a rules library for a specific industry or feature, or as an enterprise license or on a per user per month basis.

***Digital Mailroom Solutions***

Exela is one of the leading global providers of digital mailroom solutions. Our digital mailroom solutions rely on proprietary technology, use our own facilities and process a significant number of transactions daily. We use proprietary high-speed scanners as well as support most major scanners. Our end-to-end digital mail room features ingestion from many sources – paper, fax, electronic, emails and other digital data. We recently added recorded voice, image and video ingestion channels. This solution additionally offers shipping and receiving packages with digital receipt, delivery and routing to our intelligent lockers.

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We own several classification engines that we deploy for all traffic, including unattended digital repositories, for example unattended email boxes to discover content and route it to the appropriate member of an organization. Exela offers its digital mail room for enterprise wide deployment to captive mailrooms of our customers, mail rooms outsourced to both Exela and others, and for business locations where there is no dedicated mail room, such as a front desk. Our customers can see their information across the enterprise from a single platform. Our solutions are available as SaaS, BpaaS or enterprise licenses and we offer to take over the entire operation or a transactional digital mail room.

***Business process management and workflow automation***

Exela has built extensive proprietary work flow automation platforms for business process management across several industries and regions. Our platforms are designed to have intuitive user interfaces with drag & drop configuration enabling analysts a certain amount of customization. Our platforms use our EIM engines as a default and are designed to integrate with popular database and enterprise systems and are offered across three user categories:

- **Enterprise class**, hosted on premise. Suitable for 10,000 or more users and 10,000 or more tasks or process automations. Over 10,000 of our employees use this every day to perform mission critical work for our customers in Americas, Europe and Asia.

- **Interdepartmental class** work flow automation is ideal to bring structure and collaboration across departments. Over 2,500 of our employees globally use this platform to collaborate with each other and their individual work management. The platform is designed to integrate with other industry leading platforms to create a comprehensive collaborative experience. We intend to offer this to our customers in the future.

- **Case-management** work flow automation platform is our shrink wrap version for building custom work flows. One can use our library of work flows, customize them or build one from scratch for purposes of case management only. Customers can buy enterprise licenses of this platform, or on a SaaS basis and build their own work flows.

***Visualization and analytics***

Exela provides visualization and analytics capabilities within its platforms to provide actionable intelligence tied to collaboration and task management. Configurable dashboards enable users to quickly consolidate and organize disparate data sources through intuitive interfaces, avoiding IT and programming requirements. Users can build their own dashboards with dynamic drilldown options and alerts, link data to managers, and launch action items in pursuit of optimization and issue resolution. By providing analytics tied to actionable tasks, we are able to drive optimization to enhance profitability and connectivity. For example, users can create visualization of volume trends and set triggers upon statistical thresholds, sending SMS alerts to managers to adjust their downstream capacity planning if trends are not in line with set thresholds

While we offer reporting and analytics on the scope of work processed through operations, we also provide our customers the capability to consolidate various data streams into comprehensive dashboards to enhance business intelligence functions of an organization, including providing real-time visibility to revenue, cost, profitability and cash flow as well as process monitoring, KPI tracking, and actionable alerts to name a few.

We believe providing analytics modules complements our services and solutions, creating a superior user experience, and reducing the need for third party tools by centralizing business management within Exela's platforms. By enabling users to share dashboards across their organization, we believe additional users will adopt Exela platforms and increase our penetration into the front-end applications across an enterprise.

***Contract Management System***

Exela provides a contract management system to streamline execution, organization, and data management of large volumes of contracts. We utilize natural language processing and machine learning to extract key terms within unstructured formats and complex content, providing variance analysis, summary tables, and automated organization.

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Users can easily find important data points in contracts, and quickly analyze large volumes of language variations across format types. The extracted data can then be used to connect to existing systems and ERPs and serve as inputs to business operations, such as accounting and billing processes, financial planning and analysis, and regulatory reporting, enabling real-time audit and automated alerts for deviations from contract parameters. By automating key term extraction, our contract management system enables large volumes of contracts to be analyzed, and enable processes such as billing or triggered reminders for significant dates. We believe Exela's ability to cost effectively provide high accuracy transactional operations with automated validations creates a competitive advantage against those relying on manual processes and discrete sampling.

Exela can also provide a digital signature system to streamline collaboration, approvals and execution of contracts. We deploy a secure, hosted environment to request and execute signatures and exchange contracts and documents across individuals or groups. Our platform enables multiple signature execution with routing through approval hierarchies, while providing transparency to the status and tracking of comments and edits. Upon execution, documents are stored electronically for secure archival and retrieval.

***Legal Management Solutions***

Exela offers a suite of enterprise legal management solutions and services that streamline and automate legal department processes to rationalize costs and drive productivity. Solutions and services range from preventative remediation, identifying risk such as overcharges, discrimination, and data breaches and proactively providing restitution, eDiscovery, word processing and contract management using automated summarization and metadata extraction along with cognitive search enabled by natural language processing; and records management.

***Integrated Communications***

Exela's comprehensive multi-channel integrated communications solutions help customers communicate with other businesses or customers. This suite of solutions links through many channels, for example, email, print and mail, SMS, web, voice, and chat. Exela solutions and service can also include design and marketing and selection of optimal engagement and least cost routing for mission critical communications for example, bills, statements, enrollments, customer support, targeted marketing, mass notifications, reprographics, and regulatory notices.

We work with our customers as a digital migration partner to improve user experience while helping to reduce and even eliminate inefficient, wasteful communications. We use proprietary discovery techniques and analytics in addition to service specific technology to propose optimal channel and content. Our employees can also generate personalized messages, customized promotions, incentives, escalations, and resolutions.

**Exela Smart Office**

During 2018, we have been engineering a group of solutions that complement our existing offerings, labeled Exela Smart Office℠ ("Smart Office"). At present, lack of technology integration hinders optimal workplace experience and leads to waste. The Smart Office seeks to improve employee and visitor experiences while optimizing facility management efficiency. Smart Office is our enterprise IoT, which helps transform the front-office, energy and facilities management, logistics and fulfillment for our customers, and will provide on-demand services with connected devices to facilitate green initiatives, reduce waste, and ultimately enhance the employee and visitor experience For example, our space management software uses sensors to detect facility utilization enabling optimized space and energy usage and provides mobile workers directions to available work space, while our Visitor Management System and lobby kiosk can be deployed to regulate facility access. Our Intelligent Lockers are then available for visitor day storage of luggage and to provide a secure chain of custody for parcels and accountable mail for employees using our hosted shipping and receiving tools. There is also a Digital Mailroom offering part of Smart Office, which segregates white mail and aggregates, classifies and routes searchable multi-media mail to the appropriate recipient. Smart Office will be launched for sale in 2019.

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**Recruit-to-Retire (HR)**

In late 2018, we also started moving our employees to our proprietary human capital management platform. This platform integrates with our existing offerings and is designed to help an enterprise and its employees manage the data and processes relevant to the entire employment lifecycle from recruitment to retirement. By providing digital management and data tracking for human capital, we enable reduction in administrative overhead and enhanced management of human capital productivity while improving the overall experience. We intend to begin commercializing this platform in 2019.

While the above described solutions and services can be leveraged across industries, over the years we have developed services and solutions for specific industries. The most significant are summarized below.

***Banking and Financial Industry Solutions and Services***

Our banking and financial solutions are divided into payment, mortgage, enrollment, lending and loan management, governance and information management solutions and accounted for approximately 23% of 2018 revenue. Exela's payment operations and treasury management solutions are designed to improve digital engagement and transaction speed and compliance. We also provide mobile and remote deposit technologies to our banking and financial services customers.

We have extensive experience and technology that we have built over decades and in use to serve many banks and companies to process the payments related to business to business ("B2B") or business to consumer ("B2C") transactions. We develop, use, and sell proprietary integrated receivables processing technology, providing our customers with a solution that easily consolidates B2B and B2C transactions across many payment channels into a single platform. We plan to offer this as branded and as a private label solution to our banking customers giving them the ability to offer advanced treasury solutions with insights from accounts receivable, customer credit worthiness, payment habits, soft collections and delinquent collections.

We are one of the largest processors of payments. We handle many payment channels in addition to checks and credit cards including, automated clearing house (ACH), Faster Payments in UK and Ireland, Single European Payment Area (SEPA), Bank Giro in the Nordic countries and other payment networks. We perform these services on behalf of banks or their customers. We believe regulation in many geographies is opening up for non-bank payment processors to connect to the payment networks directly such that one can verify funds, confirm payee and settlement of payments and are exploring the possibility of obtaining license where required to further expand our payment offerings.

Our proprietary mortgage and loan management solutions enable lenders to originate loans and service them. Our platforms also enable invoice discounting, factoring, payable financing and leverage automation and integration such that traditional lenders, alternate lenders including peer to peer lenders can provide liquidity to underserved borrowers. We add value by automating manual, repetitive processes to improve speed and provide cost efficiencies within a compliant mortgage and lending completion process.

Our key focus is user experience, enabling faster decisions, and facilitating optimal allocation of capital and risk management for our customers. By using our F&A solutions and services, we believe our banking and financial services customers can better manage their lending book and at a low cost of ownership.

Our banking solutions help organizations transform compliance, know your customer, anti-money laundering and confirmation of payee checks into a competitive advantage, including accelerated digital on-boarding, complex process automation, screening and monitoring and predictive analytics. Exela can provide these services as an end-to-end solution or as an augmentation of existing banking processes, license technology as well as use our employees to manage a component or an entire process.

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***Healthcare Industry Solutions and Services for Insurance Companies and Healthcare Providers***

Exela's healthcare industry customers are both commercial and government sponsored healthcare plans including dental, primarily hospital networks and university hospital systems and large medical distribution systems and pharmacy networks, and accounted for approximately 21% of total revenues in 2018. We serve our customers using our proprietary technology and for some customers combined with their systems. .

We bundle our core solutions and services with a suite of healthcare payer specific services such as end-to-end processing of complex transactions, enrollments and credentialing, claims processing, adjudication and payment operations. We specialize in transactions that require multiple layers of validation, supporting documentation processing, reconciliation, and management of exceptions.

We host a proprietary platform that connects providers and payers for claims submissions, acknowledgements or denials or payments and many other interactions covering the complete lifecycle of a claim, which enables a more satisfactory engagement between payers and providers and contributes to improved access to health care and lower administrative costs. Our payer customers often encourage their contracted providers to adopt our digital platforms for overall reduction of claim processing cost. We also provide our healthcare provider customers with many services including computer assisted coding, audit and recovery of underpayments, denial and grievances, release of information, and electronic health records. We plan to offer our mobile and web enrollment solutions, appointment scheduling and locating providers with ratings, also include insurance verification, cost of visit estimates and visit pre-approval. We provide some of these services and features on a stand-alone basis and in the future we plan to offer a more integrated solution.

***Insurance Industry Solutions and Services***

Exela offers a suite of insurance industry solutions aimed at providing digital engagements and rapid integration of disparate systems and silos. Our insurance industry solutions accounted for approximately 16% of total revenues in 2018. We provide applications and services to facilitate automation and digital transformation for underwriting and enrollments, premium payments, claims submission, first notification of loss, fraud, waste & abuse monitoring and integrated communications. Our solutions are aimed at improving the customer experience by providing digital pathways and transparency with web portals and integrated communications, while improving the quality and risk management.

***Public Sector***

We provide technology and solutions, including deploying our employees, to public sector customers. Our public sector solutions accounted for approximately 7% of total revenues in 2018. Our mission is to help our public sector customers with their digital journey and meet their objectives of better serving the public. Exela solutions are primarily deployed across pension benefits and administration, tax return processing, payment operations, inter-agency information management and communications with citizens and employees of government institutions.

Our solutions have evolved over time to include digital capabilities and are designed to reduce taxpayer refund waiting time, decrease the potential for tax fraud, and provide reports and data to all the departments. Exela also has the infrastructure in place to process payments, perform collection services, handle overflow taxpayer calls, provide e-filing for individual income tax, generate outbound taxpayer notification (traditional and/or electronic notifications), and host other developed solutions.

***Commercial, Tech, Manufacturing, and Legal Industries Solutions and Services***

For the commercial, technology, manufacturing and legal industries, we primarily provide multi-industry solutions described previously. For 2018, our commercial industry revenue accounted for approximately 20% of total revenues, our revenues from the technology and manufacturing industry accounted for approximately 8%, while our revenue from the legal industry accounted for approximately 6%.

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Historically, the majority of revenue for the above-mentioned industries was generated in the Americas, though we believe there is significant expansion opportunity throughout Europe and Asian markets. As we have made investments in our global scale, technology platforms, and business strategy, some of our multi-national customers have expanded our services to other geographies to leverage our international footprint. We believe our value proposition as a single source provider with global platforms and location agnostic operations, positions us as a differentiated partner to our multi-national customers.

With the launch of Smart Office, we will be targeting technology companies in our initial go-to-market approach. We believe technology companies have a heavy focus on employee experience to attract top tier talent, and they often serve as early adopters for new offerings setting trends across other industries, and we believe will serve as strong references as we expand our Smart Office growth strategy.

***Overview of Revenues***

Our business consists of three reportable segments:

- ***Information and Transaction Processing Solutions ("ITPS").*** The ITPS segment is our largest segment, with $1,273.6 million of revenues for the fiscal year ended December 31, 2018, representing 80% of our revenues. We generate ITPS revenues primarily from a transaction-based pricing model for the various types of volumes processed, licensing and maintenance fees for technology sales, and a mix of fixed management fee and transactional revenue for document logistics and location services.

- ***Healthcare Solutions ("HS")***. The HS segment generated $228.0 million of revenues for the fiscal year ended December 31, 2018, representing 15% of our revenues. We generate HS revenues primarily from a transaction-based pricing model for the various types of volumes processed for healthcare payers and providers.

- ***Legal & Loss Prevention Services ("LLPS").*** The LLPS segment generated $84.6 million of revenues for the fiscal year ended December 31, 2018, representing 5% of our revenues. We generate LLPS revenues primarily based on time and materials pricing as well as through transactional services priced on a per item basis.

Additional financial information for our three business segments is included in Note 17 within our consolidated financial statements.

We provide services to our customers on a global basis. In 2018, our revenues by geography were as follows: $1,347.5 million in the United States (85.0% of total revenues), $211.3 million in Europe (13.2% of total revenues), and $27.4 million from the rest of the world (1.7% of total revenues). We present additional geographical financial information in Note 17 within our consolidated financial statements.

Our revenues can be affected by various factors such as our customers' demand pattern for our services. These factors have historically resulted in higher revenues and profits in the fourth quarter. Backlog is not a metric that we use to measure our business.

**History and Development of Our Company**

Exela is a Delaware corporation that was formed through the strategic combination of SourceHOV Holdings, Inc. ("SourceHOV") a leading global transaction processing company, and Novitex Holding, Inc. ("Novitex"), a cloud-based document outsourcing company, pursuant to a business combination agreement dated February 21, 2017. Formerly known as Quinpario Acquisition Corp. 2 ("Quinpario"), Exela was originally formed as a blank check company on July 15, 2014 and completed its initial public offering on January 22, 2015. In conjunction with the completion of the Novitex Business Combination in July 2017, Quinpario was renamed "Exela Technologies, Inc." Exela began trading under the ticker "XELA" on the Nasdaq Stock Market on July 13, 2017.

The Novitex Business Combination was accounted for as a reverse merger for which SourceHOV was determined to be the accounting acquirer. The acquisition of Novitex was accounted for using the acquisition method. As

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a result, the financial information for 2017 presented in this Annual Report is not pro forma (unless labeled as such); it includes the financial information and activities for SourceHOV for the entire year ending December 31, 2017, but only reflects the financial information and activities of Novitex for the period following the Novitex Business Combination from July 13, 2017 to December 31, 2017.

On April 10, 2018, Exela completed the acquisition of Asterion International Group, a well-established provider of technology driven business process outsourcing, document management and business process automation across Europe. The acquisition was strategic to expanding Exela's European business.

**Key Business Strategies**

Exela business strategy is to use its Digital Now model, which aims to accelerate our customers' digital transformation through deployment of our software and automation techniques, hosted within a single, cloud hosted platform. Our overarching goal is to provide highest value and lowest cost of ownership. We accomplish this by building scalable systems that are used by our employees to deliver business process automation services globally. The key elements of our growth strategy are described below:

- **Expand Penetration of Solution Stack Across Customer Base.** We seek to move up what we call "the seven layers of technology enabled solutions and services stack," climbing the value chain from discrete services to end-to-end processes through use of front-end enterprise software. We believe continued deployment of our single sign on portals with on-demand applications will drive expansion of our front-end software (B2B/B2C/SaaS) and integrated offerings.
    - **Layer 1 - Data Aggregation -** Host, gather, extract all types of structured and unstructured data, digital and analog
    - **Layer 2 - Information Management -** Digital classifications, data enhancement and normalization driving downstream processes improvement
    - **Layer 3 - Workflow Automation -** Digital connectivity and automated decisioning driving productivity and quality
    - **Layer 4 - Process Component -** Operations partner for component(s) of larger process, handing off output file for downstream execution
    - **Layer 5 - Platform Interface Integrations -** Exela platforms directly connected to customers' core systems, accessed through SSO and common interfaces
    - **Layer 6 - Digital Now® End-to-End Process -** Full cycle operations and technology for multi-channel process through execution of business outcomes
    - **Layer 7 - Front-End Software (B2B/B2C/SaaS) -** Exela front end applications (branded or private label) directly interfacing with end user experience

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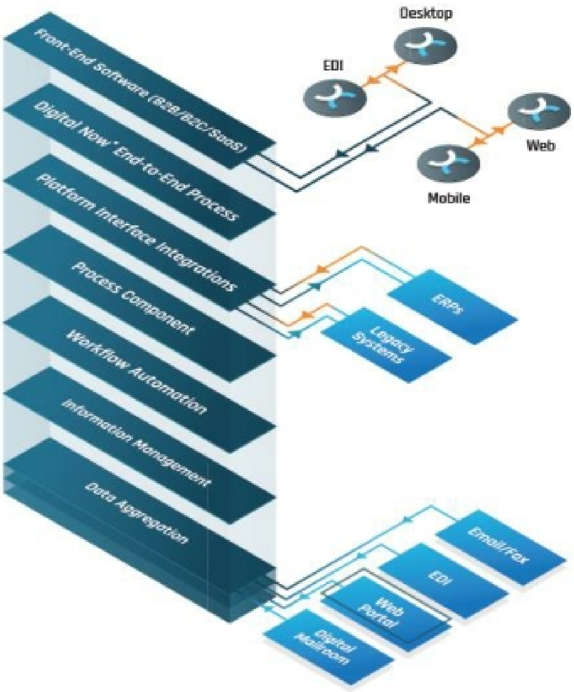
See diagram of 7 layers of solutions below:




- **Expand relationships with existing customers.** We intend to aggressively pursue cross-sell and up-sell opportunities within our existing customer base. With an installed base of over 4,000 customers, we believe we have meaningful opportunities to offer a bundled suite of services and be a "one-stop-shop" for our customers' information and transaction processing needs. Our sales force will continue to be organized on an industry basis and will be re-deployed to remove duplication, and utilize solutions and relationships to better serve our customers across all levels of their organizations. Our sales force will be incentivized to drive additional revenue opportunities across our bases while also driving higher-margin bundled solutions. As an example, we now offer a full suite of healthcare-focused solutions by bundling enrollments, policy and plan management, claims processing, audit and recovery services, payment solutions, integrated accounts payable and receivable, medical records management, and unified communication services for payers and providers.

- **Leverage BPA suite across on-site services.** Approximately 5,000 of our employees currently work at customers in an on-site capacity. We believe this on-site presence is a competitive differentiator and a valuable asset as we pursue future growth opportunities. We aim to deploy our BPA software across these customer locations, and we believe that by offering our customers enhanced productivity and quality through our onsite employees, we will create additional opportunities to expand our footprint and wallet share across the organization. For example, in customers where we provide underwriting support and claims processing, we can enable our onsite employees to accelerate the aggregation and analysis of datasets while also increasing accuracy and automatically flagging deficiencies. By enhancing the productivity and quality of our onsite employees, we believe we will increase the demand from our customers to replicate our processes across the organization, bolstering our cross-sell/up-sell initiatives. By having our BPA suite already approved and

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deployed within existing onsite engagements, we believe our ability to expand into new lines of business will be streamlined and accelerated.

- **Pursue new customer opportunities.** We plan to continue to develop new long-term, strategic customer relationships, especially where we have an opportunity to deliver a wide range of our capabilities and can have a meaningful impact on our customers' business outcomes. For example, we plan to dedicate resources within the legal industry in order to pursue opportunities in e-discovery and contract management services.

- **Develop additional process capabilities and industry expertise.** We will focus on developing additional process capabilities and market expertise for our core industries. We will continue to invest in technology and innovation that will accelerate the build-out of our portfolio of next-generation solutions, such as platform-based descriptive and predictive analytics services for processing flows of "Big Data" to help customers gain better insight into their processes and businesses. As an example, on behalf of our customers, we are deploying Big Data automation platforms to analyze individual consumer behavior and interaction patterns to identify opportunities for revenue enhancement and loss prevention, and configure optimal outreach campaigns to drive sales, loyalty, and profitability.

- **Pursue meaningful cost synergy opportunities and accelerate long-term profitability.** We have identified significant cost synergies that may result from the closing of the Novitex Business Combination. Due to similar operating infrastructures between SourceHOV and Novitex, we continue to deliver and believe we have additional opportunities across information technology, operations, facilities, and corporate functions to achieve cost savings executable as we approach 2 years from the closing of the Novitex Business Combination.

- **Capitalize on our enhanced scale and operating capacity.** We intend to utilize our increased global scale and brand recognition to strengthen our ability to bid on new opportunities. We plan to dedicate more resources to pursue whitespace coverage to expand our range of service offerings and pursue additional cross-selling opportunities. We will also look to use our increased scale and operations expertise to improve utilization of our assets. As an example, we have pursued a strategy of consolidating smaller regional document processing centers to our two Tier-III document processing and outsourcing centers in Windsor, Connecticut, and Austin, Texas that we call "MegaCenters," which is increasing efficiency through economies of scale. By driving utilization up from the current levels of the MegaCenters, we will benefit from high flow through margins from increased revenues with minimal incremental investment.

**Customers**

We serve over 4,000 customers across a variety of industries, including over 60% of the Fortune® 100. Our customers are among the leading companies in their respective industries, and many of them are recurring customers that have maintained long-term relationships with us and our predecessor companies.

We have successfully leveraged our relationships with customers to offer extended value chain services, creating stickier customer relationships and increasing overall margins. Customers are increasingly turning to us due to a demonstrated ability to work on large-scale projects, past performance and record of delivery, and deep domain expertise accumulated from years of experience in key verticals. As a result, our stable base of customers and sticky, long-term relationships lead to highly predictable revenues.

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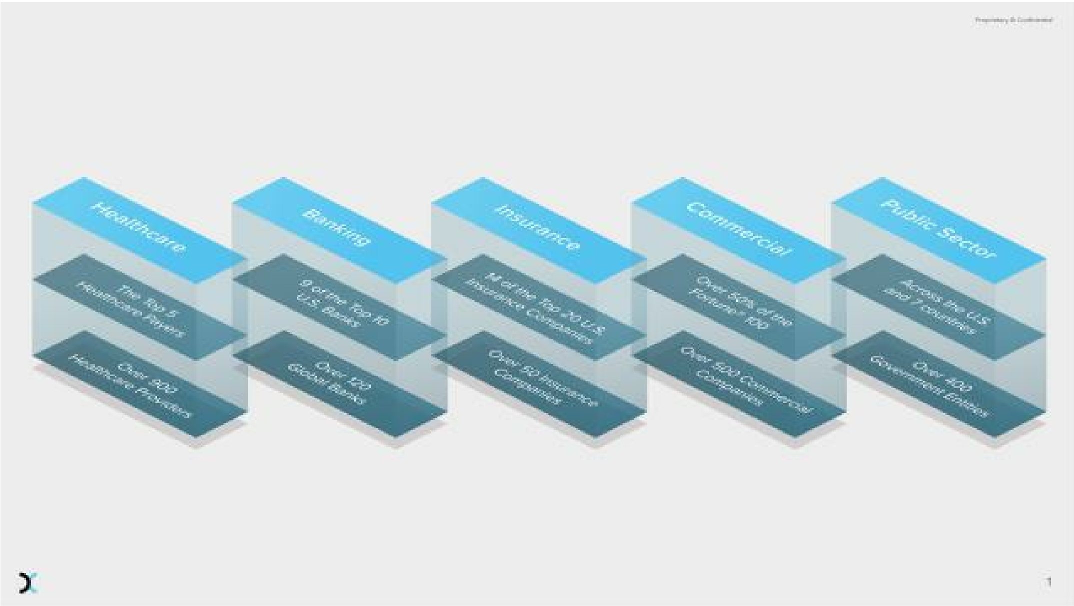
*Customer and Industry Highlights*




We maintain a strong mix of diversified customers with low customer concentration. No customer accounts for more than 10% of 2018 revenue. The diversity of our customer base has contributed to the stability and predictability of our revenue streams and cash flows. We have been able to effectively balance our customer mix and reduce dependency on any single customer or vertical by penetrating a diverse set of end markets.

**Research and Development**

Our ability to continue to compete successfully depends heavily upon our ability to ensure a timely flow of competitive products, services and technologies to the marketplace while also leveraging our domain expertise to demonstrate our understanding in implementing solutions across the industries we serve. Through regular and sustained investment, licensing of intellectual property and acquisition of third-party businesses and technology, we continue to develop new knowledge platforms, applications and supporting service bundles that enhance and expand our existing suite of services.

Our seven layer technology model requires us to continue to harness our capabilities in each layer and the ultimate measure of success will be how many customers are in each layer. We believe that a greater customer concentration in the top layers will reflect the success of our R&D strategy. Additional financial information regarding our R&D expense is included in Note 2 within our consolidated financial statements.

**Intellectual Property**

We deploy a combination of internally-developed proprietary knowledge platforms, applications and generally available third-party licensed software as part of our scalable and flexible solutions and services. Our intellectual property is our competitive strength.

Our platforms aim to enhance information management and workflow processes through automation and process optimization to minimize labor requirements or to improve labor performance. Our decisioning engines have

been built with years of deep domain expertise, incorporating hundreds of thousands of customer and industry specific rules which enable the most efficient and lowest cost preparation and decisioning of transactions. Our business processes and implementation methodologies are confidential and proprietary and include trade secrets that are important to our business. We own a variety of trademarks and patents, which are registered or pending.

We regularly enter into nondisclosure agreements with customers, business partners, employees, and contractors that require confidential treatment of our information to establish, maintain and enforce our intellectual property rights. Our licensed intellectual properties are generally governed by written agreements of varying durations, including some with fixed terms that are subject to renewal based on mutual agreement. Generally, each agreement may be further extended and we have historically been able to renew existing agreements before they expire. We expect these and other similar agreements to be extended so long as it is mutually advantageous to both parties at the time of renewal.

**Competition**

We believe that the principal competitive factors in providing our solutions include proprietary platforms, industry specific knowledge, quality, reliability and security of service, and price. We are differentiated competitively given our scale of operations, reputation as a trusted partner with deep domain expertise, innovative solutions, and highly integrated technology platforms that provide customers with end-to-end services addressing many aspects of their mission-critical operational processes. We continue to integrate best practice delivery processes into our service-delivery capabilities to improve its quality and service levels and to increase operational efficiencies. The markets in which we serve are competitive with both large and small businesses, as well as global companies:

- Multi-national companies that provide data aggregation, information management and workflow automation services, such as IBM, EMC, OpenText, Hyland, Iron Mountain, Canon, and Ricoh;
- Consulting, discrete process and platform integration service providers such as Fiserv, Jack Henry, FIS, Black Knight Financial, Optum, Broadridge Financial Solutions, Computershare, Cognizant, and Accenture;
- Platform and front-end software providers, such as Workday, Salesforce, Blackline and Pega;
- Multi-shore BPO companies, such as Genpact, Cognizant, Exl service, Conduent, Wipro, and WNS; and
- Smaller, niche service providers in specific verticals or geographic markets.

**Regulation and Compliance**

We handle, directly or indirectly through customer contracts and business associate agreements, a significant amount of information, including personal and health-related information, which results in our being subject to federal, state and local privacy laws, including the Gramm-Leach-Bliley Act, HIPAA and the HITECH Act of 2009. Further, we are subject to the local rules and regulations in the other countries in which we operate, including those relating to the handling of information. In addition, services in our LLPS segment, though not directly regulated, must be provided in a manner consistent with the relevant legal framework. For example, our bankruptcy claims administration services must be provided in accordance with the requirements and deadlines of the United States Bankruptcy Code and Federal Rules of Civil Procedure. In addition, some of our customers are subject to regulatory oversight, which may result in our being reviewed from time to time by such oversight bodies. Further, as a government contractor, we are subject to associated regulations and requirements.

Other laws apply to our processing of individually identifiable information. These laws have been subject to frequent changes, and new legislation in this area may be enacted at any time. Changes to existing laws, introduction of new laws in this area, or failure to comply with existing laws that are applicable to us may subject us to, among other things, additional costs or changes to our business practices, liability for monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to obtain and process information and allegations by our

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customers and customers that we have not performed our contractual obligations, any of which may have a material adverse effect on profitability and cash flow.

*Privacy and Information Security Regulations*

The processing and transfer of personal information is required to provide certain of our services. Data privacy laws and regulations in the U.S. and foreign countries apply to the access, collection, transfer, use, storage, and destruction of personal information. In the U.S., our financial institution customers are required to comply with privacy regulations imposed under the Gramm-Leach-Bliley Act, in addition to other regulations. As a processor of personal information in our role as a provider of services to financial institutions, we are required to comply with privacy regulations and are bound by similar limitations on disclosure of the information received from our customers as apply to the financial institutions themselves. We also perform services for healthcare companies and are, therefore, subject to compliance with laws and regulations regarding healthcare information, including in the U.S., HIPAA. We also perform credit-related services and agree to comply with payment card standards, including the PCIDSS. In addition, federal and state privacy and information security laws, and consumer protection laws, which apply to businesses that collect or process personal information, also apply to our businesses.

Privacy laws and regulations may require notification to affected individuals, federal and state regulators, and consumer reporting agencies in the event of a security breach that results in unauthorized access to, or disclosure of, certain personal information. Privacy laws outside the U.S. may be more restrictive and may require different compliance requirements than U.S. laws and regulations, and may impose additional duties on us in the performance of our services.

There has been increased public attention regarding the use of personal information and data transfer, accompanied by legislation and regulations intended to strengthen data protection, information security and consumer and personal privacy. The law in these areas continues to develop and the changing nature of privacy laws in the U.S., the European Union (“E.U”) and elsewhere could impact our processing of personal information of our employees and on behalf of our customers. In the E.U. the comprehensive General Data Privacy Regulation (the "GDPR") went into effect in May 2018. The GDPR has introduced significant privacy-related changes for companies operating both in and outside the EU. While we believe that we are compliant with our regulatory responsibilities, information security threats continue to evolve resulting in increased risk and exposure. In addition, legislation, regulation, litigation, court rulings, or other events could expose us to increased costs, liability, and possible damage to our reputation.

**Employees**

The continued success of our business is driven by our people. Our senior leadership team has extensive experience within the larger BPO as well as the BPA industries. As we were formed through a series of acquisitions, we have retained an experienced and cohesive leadership team. The combination of our employees with our technology is the backbone of our ability to provide holistic solutions designed to meet the rapidly evolving needs of our customers.

As of December 31, 2018, we had approximately 22,000 total employees, which included approximately 21,000 full-time and 1,000 part-time employees. We have a global workforce with a majority of our employees located in the United States, and the remainder located in Europe, Northern Africa, India, the Philippines, Mexico and China. Our employee count fluctuates from time to time based upon the timing and duration of our engagements. We consider our relationship with our employees to be good.

We locate our operation centers in areas where the value proposition it offers is attractive relative to other local opportunities, resulting in an engaged educated multi-lingual workforce that is able to make a meaningful global contribution from their local marketplace. To supplement the skills available in certain markets, we offer our employees a focused set of training programs to increase their skills and leadership capabilities with the goal of creating a long-term funnel of talent to support the Company's continued growth. Additionally, our proprietary platforms enable rapid learning and facilitate knowledge transfer among employees, reducing training time.

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**Available Information**

Our website address is www.exelatech.com. We are not including the information provided on our website as a part of, or incorporating it by reference into, this Annual Report. We make available free of charge (other than an investor's own internet access charges) through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission (the "SEC"). In addition, we make available our code of ethics entitled "Global Code of Ethics and Business Conduct" free of charge through our website. We intend to post on our website all disclosures that are required by law or Nasdaq listing standards concerning any amendments to, or waivers from, any provision of our code of ethics.

The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The information contained on the websites referenced in this Annual Report is not incorporated by reference into this filing.

**Executive Officers**

The following table sets forth information concerning our executive officers as of March 15, 2019:

| Name | Age | Position |
|---|---|---|
| **Ronald Cogburn** | 64 | Chief Executive Officer |
| **James (Jim) Reynolds** | 50 | Chief Financial Officer |
| **Suresh Yannamani** | 53 | President |
| **Mark Fairchild** | 59 | President, Exela Smart Office |
| **Shrikant Sortur** | 46 | Executive Vice President, Global Finance |
| **Srini Murali** | 46 | President, Americas and APAC |
| **Vitalie Robu** | 47 | President, EMEA |

***Ronald Cogburn*** is our Chief Executive Officer and served as Chief Executive Officer of SourceHOV from 2013 until the closing of the Novitex Business Combination. Mr. Cogburn has been part of companies that were predecessors to SourceHOV since 1993, bringing over 30 years of diversified experience in executive management, construction claims consulting, litigation support, program management project management, cost estimating, damages assessment and general building construction. Mr. Cogburn has also been a principal of HGM since 2003. Prior to his role as Chief Executive Officer of SourceHOV, Mr. Cogburn was SourceHOV's President, KPO from March 2011 to July 2013. Prior to this role, Mr. Cogburn was the President of HOV Services, LLC from January 2005 to September 2007, providing executive leadership during the company's growth to its IPO on the India Stock Exchange in September 2006. Mr. Cogburn has a BSCE in Structural Design/Construction Management from Texas A&M University and is a registered Professional Engineer.

***Jim Reynolds*** is our Chief Financial Officer and has served in that role since the closing of the Novitex Business Combination. Mr. Reynolds served as Co-Chairman of SourceHOV from 2014 until the closing of the Novitex Business Combination in 2017. Mr. Reynolds is also the Chief Operating Officer and a Partner at HGM, bringing over 25 years of industry experience to the team. Prior to HGM Mr. Reynolds held numerous executive management or senior advisory positions at SourceHOV and its related subsidiaries and predecessor companies, including serving as Chief Financial Officer for HOV Services, LLC from 2007 to 2011 and Vice President and Corporate Controller for Lason from 2001 to 2006. Mr. Reynolds was a Senior Manager in the Business Advisory Services Practice at PricewaterhouseCoopers from 1990 to 2001. Mr. Reynolds is a C.P.A. and holds a B.S. in Accounting from Michigan State University.

***Suresh Yannamani*** is our President and served as President, Americas of SourceHOV from 2011 until the closing of the Novitex Business Combination, and has been a part of companies that were predecessors to SourceHOV

from 1997 until the closing of the Novitex Business Combination. Mr. Yannamani oversees the sales and operations and plays a large part in scaling the transaction processing solutions practice and enterprise solution strategy for healthcare, financial services and commercial industries. Mr. Yannamani was also President of HOV Services, LLC from 2007 to 2011, serving customers in the healthcare, financial services, insurance and commercial industries. Mr. Yannamani was the Executive Vice President of BPO services for Lason from 1997 to 2007 prior to its acquisition by HOV Services, LLC. Mr. Yannamani also served in management roles at IBM from 1995 to 1997, managing the design, development, and implementation of financial management information systems for the Public Sector and worked for Coopers & Lybrand as a consultant in public audits from 1992 to 1994. Mr. Yannamani has a bachelor's degree in Chemistry from the University of London and holds an MBA from Eastern Michigan University.

***Mark Fairchild*** is our President, Exela SmartOffice and served as President of Exela Enterprise Solutions from the Novitex Business Combination until January 2019 and prior to that served as President, Europe, of SourceHOV from the merger of BancTec and SourceHOV in 2014, having served in management roles at BancTec since 1985. With more than 30 years of executive experience in the financial services industry, Mr. Fairchild specializes in global account management, transaction processing services, software solutions and hardware technology products. In 2005, Mr. Fairchild was appointed Chief Technology Officer of BancTec and was responsible for the company's software and hardware products, manufacturing and internal IT services until 2014. Prior to this role, Mr. Fairchild acted as Vice President for International Operations of BancTec from 2001 to 2005 and VP of European Operations from 1998 to 2001. In his role as International Systems Director from 1991 to 1998, Mr. Fairchild led the European software teams, implementing payment platforms throughout the region. As Director of Engineering of BancTec from 1989 to 1991, Mr. Fairchild led the research and development team that introduced a new high-speed digital image processing system that formed the base of BancTec's ImageFIRST product portfolio. Mr. Fairchild joined BancTec as a Project Manager, a position he held from 1985 to 1986. He began his career as a software developer at British Aerospace, where he worked from 1981 to 1985. Mr. Fairchild graduated with honors from Manchester University with a bachelor's degree in aeronautical engineering and an MBA from London Business School.

***Shrikant Sortur*** is our Executive Vice President, Global Finance and served as Senior Vice President, Global Finance of SourceHOV from 2016 until the closing of the Novitex Business Combination. He was responsible for SourceHOV's finance and accounting groups and led financial operations, activities, plans and budgets. Mr. Sortur's career spans more than 19 years of varied experience in financial management, accounting, reporting, and lean operations. Mr. Sortur served in other management roles in predecessor companies to SourceHOV from 2002 until the closing of the Novitex Business Combination. Mr. Sortur also acted as Vice President of Finance of SoureHOV from June 2015 to May 2016. Mr. Sortur acted as Director of Financial Planning and Analysis, TPS from January 2014 to June 2015. Prior to this role, Mr. Sortur was the Director of Financial Planning and Analysis, North America Operations from January 2012 to December 2013. Mr. Sortur acted as Controller for HOV Global from January 2009 to December 2011. Mr. Sortur was a Senior Accounting Manager for HOV Services, LLC / Lason, Inc. from May 2004 to December 2008 and worked for the SourceHOV group as a Manager, Finance & Accounts for Lason India Ltd. from December 2002 to May 2014. From March 1999 to December 2002, Mr. Sortur served as General Manager, Finance at SRM Technologies, a business solutions and technology provider specializing in software design and development, systems integration, web services, enterprise mobilization, and embedded solutions development. From June 1997 to February 1999, Mr. Sortur served as Junior Manager, Finance and Accounting for Steel Authority of India, a large state-owned steel making company based in New Delhi, India. Mr. Sortur graduated from Osmania University with a bachelor's degree in accounting and is a Certified Public Accountant (CPA), Chartered Accountant (CA), and Certified Management Accountant (CMA).

***Srini Murali*** is our President, Americas and APAC and served as Chief Operating Officer Americas and APAC from the Novitex Business Combination until January 2019. He is responsible for all sales, operations and business strategy functions across the Americas and Asia Pacific. Prior to the Novitex Business Combination, Mr. Murali served as Senior Vice President, Operations for the Americas and APAC regions for SourceHOV, creating global operating strategies, developing client relationships, and overseeing compliance. Mr. Murali has been a part of predecessor companies to SourceHOV since 1993. During his tenure, Mr. Murali has held analysis, product development, IT, and operational roles. In 2010, Mr. Murali took on a broader scope of responsibility as SourceHOV's Senior Vice President of Global Operations and IT. Mr. Murali has served in executive-level leadership roles at companies that preceded SourceHOV since 2007, when he was appointed Vice President of IT and Technology. Prior to these management roles,

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Mr. Murali served as Director of Information Technology for Lason from 2002 to 2007, and as an Application Development Manager for Lason from 1998 to 2002. Before joining Lason, Mr. Murali worked as a Systems Engineer for Vetri Systems from 1996 to 1998. Mr. Murali graduated with a bachelor's degree in mathematics and statistics from Loyola College, Chennai, and earned an MBA from Davenport University, Michigan.

***Vitalie Robu*** is our President, EMEA and served as Chief Operating Officer, EMEA from the Novitex Business Combination until January 2019. Mr. Robu is responsible for all sales, operations and business strategy functions across Europe, Middle East and Africa. Mr. Robu specializes in transaction processing services, technology products, and software solutions, and has over 20 years of international management experience in the private and public sectors. Prior to the Novitex Business Combination, he served as Senior Vice President, Operations for the European region of SourceHOV from 2014. From 2010 to 2014, Mr. Robu held the position of President and Executive Director of DataForce UK, a business process outsourcing and software provider that was part of SourceHOV. Prior to joining the SourceHOV group, Mr. Robu served as Manager of Investment and Insurance Products for Citibank EMEA in London from 2007 to 2010. Mr. Robu has degrees in International Relations from the National School for Political Studies, Bucharest and Physics from the State University of Moloves, and earned an MBA from IMD - International Institute for Management Development, Lausanne.

## ITEM 1A. RISK FACTORS

*In addition to the other information contained in this Annual Report, the following risks impact our business and operations. These risk factors are not exhaustive and all investors are encouraged to perform their own investigation with respect to our business, financial condition and prospects.*

### Risks Related to our Business

***Our results of operations could be adversely affected by economic and political conditions, creating complex risks, many of which are beyond our control.***

Our business depends on the continued demand for our services, and, if current global economic conditions worsen, our business could be adversely affected by our customers' financial condition and level of business activity. Along with our customers we are subject to global political, economic and market conditions, including inflation, interest rates, energy costs, the impact of natural disasters, military action and the threat of terrorism. In particular, we currently derive, and are likely to continue to derive, a significant portion of revenues from customers located in North America and Europe. Any future decreases in the general level of economic activity in this markets, such as decreases in business and consumer spending and increases in unemployment rates, could result in a decrease in demand for our services, thus reducing our revenue. For example, certain customers may decide to reduce or postpone their spending on the services we provide, and we may be forced to lower our prices. Other developments in response to economic events, such as consolidations, restructurings or reorganizations, particularly involving our customers, could also cause the demand for our services to decline, negatively affecting the amount of business that we are able to obtain or retain. We may not be able to predict the impact such conditions will have on the industries we serve and may be unable to plan effectively for or respond to such impact. In response to economic and market conditions, from time to time we have undertaken or may undertake initiatives to reduce our cost structure where appropriate, such as consolidation of resources to provide functional region-wide support to our international subsidiaries in a centralized fashion. These initiatives, as well as any future workforce and facilities reductions we may implement, may not be sufficient to meet current and future changes in economic and market conditions and allow us to continue to achieve the growth rates expected. In addition, costs actually incurred in connection with certain restructuring actions may be higher than our estimates of such costs and/or may not lead to the anticipated cost savings.

Additionally, major political events, including the planned withdrawal of the United Kingdom from the European Union on March 29, 2019 ("Brexit"), continue to create uncertainty on topics that are relevant to our operations in the United Kingdom, such as immigration laws and employment laws, trade agreements and privacy laws. We are currently examining the various possible impacts Brexit may have on our business and operating model in an effort to develop solutions to address any of the potential outcomes. In addition, it is possible that Brexit may adversely affect global economic conditions and financial markets, to greater extent than we have currently anticipated.

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In addition, any future disruptions or turbulence in the global credit markets may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers. Such disruptions may limit our ability to access financing, increase the cost of financing needed to meet liquidity needs and affect the ability of our customers to use credit to purchase our services or to make timely payments to us, adversely affecting our financial condition and results of operations.

***Cybersecurity issues, vulnerabilities, and criminal activity resulting in a data or security breach could result in risks to our systems, networks, products, solutions and services resulting in liability or reputational damage.***

We collect and retain large volumes of internal and customer data, including personally identifiable information and other sensitive data both physically and electronically, for business purposes, and our various information technology systems enter, process, summarize and report such data. We also maintain personally identifiable information about our employees. Safeguarding customer, employee and our own data is a key priority for us, and our customers and employees have come to rely on us for the protection of their personal information. Augmented vulnerabilities, threats and more sophisticated and targeted cyber-related attacks pose a risk to our security and the security of our customers, partners, suppliers and third-party service providers, and to the confidentiality, availability and integrity of data owned by us or our customers. Despite our efforts to protect sensitive, confidential or personal data or information, we may be vulnerable to material security breaches, theft, misplaced or lost data, programming errors, employee errors and/or malfeasance that could potentially lead to the compromise of sensitive, confidential or personal data or information, improper use of our systems, software solutions or networks, unauthorized access, use, disclosure, modification or destruction of information, defective products, production downtimes and operational disruptions. Despite protective measures, we may not be successful in preventing security breaches which compromise the confidentiality and integrity of this data. While an attempt is made to mitigate these risks by employing a number of measures, including employee training, monitoring and testing, and maintenance of protective systems and contingency plans, we remain vulnerable to such threats.

The sensitive, confidential or personal data or information that we have access to is also subject to privacy and security laws, regulations or customer-imposed controls. The regulatory environment, as well as the requirements imposed on us by the industries we serve governing information, security and privacy laws is increasingly demanding. Maintaining compliance with applicable security and privacy regulations may increase our operating costs and/or adversely impact our ability to provide services to our customers. Furthermore, a compromised data system or the intentional, inadvertent or negligent release or disclosure of data could result in theft, loss, fraudulent or unlawful use of customer, employee or our data which could harm our reputation or result in remedial and other costs, fines or lawsuits. In addition, a cyber-related attack could result in other negative consequences, including damage to our reputation or competitiveness, remediation or increased protection costs, litigation or regulatory action. Fraud, employee negligence, unauthorized access, including, without limitation, malfunctions, viruses and other events beyond our control, may lead to the misappropriation or unauthorized disclosure of sensitive or confidential information we process, store and transmit, including personal information, for our customers, failure to prevent or mitigate data loss or other security breaches, including breaches of our vendors' technology and systems, could expose us or our customers to a risk of loss or misuse of such information, adversely affect our operating results, result in litigation or potential liability for us and otherwise harm our business. As a result, we may be subject to monetary damages, regulatory enforcement actions or fines under federal legislation, such as, the Gramm-Leach-Bliley Act and HIPAA, as well as various states laws or under the GDPR in Europe. Similarly, regulations such as the Health Information Technology for Economic and Clinical Health Act provisions of the American Recovery and Reinvestment Act of 2009 expand the obligations of "covered entities" and their business associates, including certain mandatory breach notification requirements. In addition to any legal liability, data or security breaches may lead to negative publicity, reputational damage and otherwise adversely affect the results of our operations.

***Our industry may be adversely impacted by a negative public reaction in the U.S. and elsewhere to providing certain of our services from outside the U.S. and recently proposed related legislation.***

We have based our strategy of future growth on certain assumptions regarding our industry and future demand in the market for the provision of business process solutions in part using offshore resources. However, providing services from offshore locations is a politically sensitive topic in the U.S. and elsewhere, and many organizations and

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public figures have publicly expressed concern about a perceived association between offshore service providers and the loss of jobs in their home countries. In addition, there has been limited publicity about the negative experience of certain companies that provide their services offshore, particularly in India. The trend of providing business process solutions offshore may not continue and could reverse if companies elect to develop and perform their business processes internally or are discouraged from transferring these services to offshore service providers. Any slowdown or reversal of existing industry trends could negatively affect the amount of business that we are able to obtain or retain.

A variety of U.S. federal and state legislation has been proposed that, if enacted, could restrict or discourage U.S. companies from providing their services from outside the U.S., including recently introduced proposals for providing tax and other economic incentives for companies that create jobs in the U.S. by reducing their reliance on offshore locations. Other state bills have proposed requiring offshore service providers to disclose their geographic locations, requiring notice to individuals whose personal information is disclosed to non-U.S. affiliates or subcontractors, requiring disclosures of companies' foreign outsourcing practices or restricting U.S. private sector companies that have government contracts, grants or guaranteed loan programs from providing their services. Because most of our customers are located in the U.S., any expansion of existing laws or the enactment of new legislation that constrains our ability to provide our solutions from offshore or otherwise makes using our services unappealing or impractical for our customers could have a material and adverse effect on our business, results of operations, financial condition and cash flows.

***The HGM Group has significant influence over us and our corporate governance.***

The HGM Group beneficially owns over 50% of our Common Stock. As long as the HGM Group owns or controls a significant percentage of outstanding voting power, it will have the ability to strongly influence all corporate actions requiring stockholder approval, including the election and removal of directors and the size of our board of directors, any amendment of our certificate of incorporation or bylaws, or the approval of any merger or other significant corporate transaction, including a sale of substantially all of our assets. In addition, pursuant to the terms of the Director Nomination Agreement, the HGM Group (as well as Novitex Holdings) have certain nomination rights with respect to our board of directors and consent rights over certain of our corporate actions.

Additionally, the HGM Group's interests may not align with the interests of our other stockholders. The HGM Group is in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. The HGM Group may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. In addition, our certificate of incorporation provides that we renounce any interest or expectancy in the business opportunities of the HGM Group and that it shall not have any obligation to offer to us those opportunities unless presented to one of our directors or officers in his or her capacity as a director or officer of Exela.

***Certain services we provide to customers in our public sector vertical may be subject to additional restrictions or limitations.***

Our engagements with entities in the public sector, including educational institutions, may be subject to compliance with additional legislative or regulatory requirements. Certain state and local governments and agencies have adopted, or may in the future adopt, legislation or rules imposing additional requirements on services provided to the public sector, including restrictions as to where certain services can be performed or where certain data can be stored, even within the U.S. Additionally, our employees who are staffed on certain public sector engagements may be subject to strict background checks or other certifications. These additional requirements may make it more difficult to staff large public sector engagements, require us to turn down new engagements, affect our ability to meet customer expectations, deadlines or other specifications and otherwise increase our costs or decrease our revenues. Further, there can be no assurances that a public sector entity will not face funding shortages or reallocate funding for our services to other priorities, either prior to or after we have begun to perform our services, which could impact whether we are fully compensated for our services and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

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***Certain of our contracts are subject to termination rights, audits and/or investigations, which, if exercised, could negatively impact our reputation and reduce our ability to compete for new contracts and have an adverse effect on our business, results of operations and financial condition.***

Many of our customer contracts may be terminated by our customers without cause and without any fee or penalty, with only limited notice. Any failure to meet a customer's expectations, as well as factors beyond our control, including a customer's financial condition, strategic priorities, or mergers and acquisitions, could result in a cancellation or non-renewal of such a contract or a decrease in business provided to us and cause our actual results to differ from our forecasts. We may not be able to replace any customer that elects to terminate or not renew its contract with us, which would reduce our revenues.

In addition, a portion of our revenues is derived from contracts with the U.S. federal and state government and their agencies and from contracts with foreign governments and their agencies. Government entities typically finance projects through appropriated funds. While these projects are often planned and executed as multi-year projects, government entities usually reserve the right to change the scope of or terminate these projects for lack of approved funding and/or at their convenience. Changes in government or political developments, including budget deficits, shortfalls or uncertainties, government spending reductions (e.g., \ during a government shutdown) or other debt or funding constraints, such as those recently experienced in the U.S. and Europe, could result in lower governmental sales and in our projects being reduced in price or scope or terminated altogether, which also could limit our recovery of incurred costs, reimbursable expenses and profits on work completed prior to the termination. The public procurement environment is unpredictable and this could adversely affect our ability to perform work under new and existing contracts. Also, our government business is subject to the risk that one or more of our potential contracts or contract extensions may be diverted by the contracting agency to a small or disadvantaged or minority-owned business pursuant to set-aside programs administered by the Small Business Administration, or may be bundled into large multiple award contracts for very large businesses. These risks can potentially have an adverse effect on our revenue growth and profit margins.

If the government finds that it inappropriately charged any costs to a contract, the costs are not reimbursable or, if already reimbursed, the cost must be refunded to the government. Additionally, if the government discovers improper or illegal activities or contractual non-compliance (including improper billing), we may be subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with the government. Any resulting penalties or sanctions could materially adversely affect our results of operations and financial condition. Moreover, government contracts are generally subject to audits and investigations by government agencies. Further, the negative publicity that could arise from any such penalties, sanctions or findings in such audits or investigations could have an adverse effect on our reputation in the industry and reduce our ability to compete for new contracts and could materially adversely affect our results of operations and financial condition.

***Our services and facilities may be impacted by terrorism, natural disasters and other disruptions, resulting in an adverse effect on our profitability and financial condition.***

Our ability to provide services may be impacted or disrupted as a result of natural disasters, technical disruptions (including power outage and telecommunications failure), man-made events (including cyber-attacks, war and terrorist attacks), and global health risks or pandemics, as well as the threat or perceived threat of any of these events in the U.S. or any of the locations in which we operate. A significant portion of our employees and key operations centers are located in India and the Philippines, with, particularly in India, limited diversification or redundancy. India and the Philippines are particularly susceptible to natural disasters, including typhoons, tsunamis, floods and earthquakes, and the Philippines is additionally susceptible to volcanic eruptions. Our operations in these locations, as well as certain other countries outside of the U.S., are also at greater risk of disruptions in electricity, other public utilities or network services due to substandard infrastructure. Although all of our operations centers have disaster management plans, certain disaster management facilities, particularly in India, may not be adequate to protect against potential disruptions due to natural or other disasters. Damage, destruction or disruptions, including to our MegaCenters, could make it difficult or impossible for employees to reach our business locations or otherwise interrupt our ability to provide our services. Sustained periods of interruption in our services could adversely affect our reputation and

relationships with our customers, cause us to incur substantial expenses and expose us to liability. Our insurance coverage may not be sufficient to cover all of our potential losses and our business, results of operation and financial condition could be adversely affected.

Any disruption related to our U.S. data centers or MegaCenters due to any of the foregoing events may cause significant disruptions in our ability to provide our services to our customers and result in a material adverse effect on our reputation, results of operations and financial condition and our business, results of operations and financial condition could be adversely affected.

Although we believe that our insurance coverage with respect to disruptive events is reasonable, significant events such as acts of war and terrorism, economic conditions, judicial decisions, legislation, natural disasters and large losses could materially affect our insurance obligations and future expense.

***Our executives, senior management team and other key personnel are critical to our continued success and the loss of such personnel, or an inability to attract, engage, retain and integrate our executives and other key employees could harm our business.***

Our future success substantially depends on the continued service and performance of our executives, senior management team, as well as other key individuals in senior leadership positions. These personnel possess business and technical capabilities that are difficult to replace. The loss of any of our key personnel, particularly to competitors, may adversely affect our ability to effectively manage our current operations or meet ongoing and future business challenges. Further, identifying, developing internally or hiring externally, training and retraining highly-skilled managerial, technical, sales and services, finance and marketing personnel are critical to our future. Failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations.

***Our business, financial position, and results of operations could be harmed by adverse rating actions by credit rating agencies.***

If the credit ratings of our outstanding indebtedness are downgraded, or if rating agencies indicate that a downgrade may occur, our business, financial position, and results of operations could be adversely affected and perceptions of our financial strength could be damaged. A downgrade would have the effect of increasing our borrowing costs, and could decrease the availability of funds we are able to borrow, adversely affecting our business, financial position, and results of operations. In addition, a downgrade could adversely affect our relationships with our customers.

***Our management team has limited experience managing a public company.***

Most members of our management team have limited experience managing a publicly traded company, interacting with public company investors and complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage the next stages of our transition to being a public company subject to significant regulatory oversight and reporting obligations under the federal securities laws and the scrutiny of securities analysts and investors. These new obligations and constituents will require significant attention from our management team and could divert their attention away from the day-to-day management of our business, which could materially adversely affect our business, financial condition and operating results.

***The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.***

As a public company, we are subject to the reporting requirements of the Exchange Act, the listing requirements of the Nasdaq and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources, particularly as we are no longer an emerging growth company. Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and operating results and maintain effective disclosure controls and procedures and internal control over

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financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire even more employees in the future, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expense and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

As a result of being a public company and these new rules and regulations, it is more expensive for us to obtain director and officer liability insurance, and in the future we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

***If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.***

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Sarbanes-Oxley Act of 2002, as amended (the "Sarbanes-Oxley Act"), and the listing standards of the Nasdaq Stock Market. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time consuming and costly, and place significant strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. We are also continuing to improve our internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our disclosure controls or our internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of management evaluations of our internal control over financial reporting that we are required to include in our periodic reports that we file with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the Nasdaq Stock Market.

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Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and operating results and cause a decline in the price of our common stock.

***Elevated levels of leverage may harm our financial condition and results of operations.***

As of December 31, 2018, we had approximately $1.3 billion of long-term debt, excluding current maturities. We and our subsidiaries may incur additional indebtedness in the future. Our indebtedness could: decrease our ability to obtain additional financing for working capital, capital expenditures, general corporate or other purposes; limit our flexibility to make acquisitions; increase our cash requirements to support the payment of interest; limit our flexibility in planning for, or reacting to, changes in our business and our industry; and increase our vulnerability to adverse changes in general economic and industry conditions. Our ability to make payments of principal and interest on our indebtedness depends upon our future performance, which will be subject to general economic conditions and financial, business and other factors affecting our consolidated operations, many of which are beyond our control. In addition, if our outstanding senior notes are downgraded to below investment grade, we may incur additional interest expense. If we are unable to generate sufficient cash flow from operations in the future to service our debt and meet our other cash requirements, we may be required, among other things: to seek additional financing in the debt or equity markets; to refinance or restructure all or a portion of our indebtedness; or to reduce or delay planned capital or operating expenditures. Such measures might not be sufficient to enable us to service our debt and meet our other cash requirements. In addition, any such financing, refinancing or sale of assets might not be available at all or on economically favorable terms.

***If we are unable to successfully consummate acquisitions or experience delays in integrating acquisitions, it could have a material adverse effect on our business, financial condition and results of operations.***

One of our strategies to grow our business is to opportunistically acquire complementary businesses, technologies and services such as Asterion Group International in 2018. This strategy depends in large part on our ability to find suitable acquisitions and finance them on acceptable terms. We may require additional debt or equity financing for future acquisitions, and doing so will be made more difficult by our indebtedness. Raising additional capital for acquisitions through debt financing could result in increased interest expense and may involve agreements that include covenants limiting or restricting our ability to take certain actions, such as incurring additional debt, making capital expenditures or declaring dividends. .

If we are unable to identify and acquire suitable acquisition candidates, we may experience slower growth. Further, we may face challenges in integrating any acquired business. These challenges include eliminating redundant operations, facilities and systems, coordinating management and personnel, retaining key employees, managing different corporate cultures and achieving cost reductions and cross-selling opportunities. Additionally, the acquisition and integration processes may disrupt our business and divert management attention and our resources. If we fail to successfully integrate acquired businesses, products, technologies and personnel, it could impair relationships with employees, clients and strategic partners, distract management attention from our core businesses, result in control failures and otherwise disrupt our ongoing business, any of which could have a material adverse effect on our business, financial condition and results of operations. We also may not be able to retain key management and other critical employees after an acquisition. In addition, we may be required to record future charges for impairment of goodwill and other intangible assets resulting from such acquisitions.

***If we are unable to attract, train and retain skilled professionals, including highly skilled technical personnel to satisfy customer demand and senior management to lead our business globally, our business and results of operations may be materially adversely affected.***

Our success is dependent, in large part, on our ability to keep our supply of skilled professionals, including project managers, IT engineers and senior technical personnel, in balance with customer demand around the world and on our ability to attract and retain senior management with the knowledge and skills to lead our business globally. Each year, we must hire several hundred new professionals and retrain, retain, and motivate our workforce across the globe. Competition for skilled labor is intense and, in some jurisdictions in which we operate, there are more jobs for certain professionals than qualified persons to fill these jobs. Costs associated with recruiting and training professionals can be significant. If we are unable to hire or deploy employees with the needed skillsets or if we are unable to adequately equip

our employees with the skills needed, this could materially adversely affect our business. Additionally, if we are unable to maintain an employee environment that is competitive and contemporary, it could have an adverse effect on engagement and retention, which may materially adversely affect our business. If more stringent labor laws become applicable to us or if a significant number of our employees unionize, our profitability may be adversely affected.

Increased labor costs due to competition, increased minimum wage or employee benefits costs (including various federal, state and local actions to increase minimum wages), unionization activity or other factors would adversely impact our cost of sales and operating expenses. For example, the State of California has passed regulations which increased minimum wage rates from $10.50 per hour to $11.00 per hour, that became effective January 1, 2018, and will gradually increase to $15.00 per hour by 2022. In addition, the federal government and a number of other states are evaluating various proposals to increase their respective minimum wage. As minimum wage rates increase, we may need to increase not only the wages of our minimum wage employees but also the wages paid to employees at wage rates that are above minimum wage. As a result, we anticipate that our labor costs will continue to increase.

We are also subject to applicable rules and regulations relating to our relationship with our employees, including minimum wage and break requirements, health benefits, unemployment and sales taxes, overtime, and working conditions and immigration status. Legislated increases in the minimum wage and increases in additional labor cost components, such as employee benefit costs, workers' compensation insurance rates, compliance costs and fines, as well as the cost of litigation in connection with these regulations, would increase our labor costs. Unionizing and collective bargaining efforts have received increased attention nationwide in recent periods. While a small number of our employees belong to unions, should our employees become represented by unions, we would be obligated to bargain with those unions with respect to wages, hours, and other terms and conditions of employment, which is likely to increase our labor costs. Moreover, as part of the process of union organizing and collective bargaining, strikes and other work stoppages may occur, which would cause disruption to our business. Similarly, many employers nationally in similar environments have been subject to actions brought by governmental agencies and private individuals under wage-hour laws on a variety of claims, such as improper classification of workers as exempt from overtime pay requirements and failure to pay overtime wages properly, with such actions sometimes brought as class actions. These actions can result in material liabilities and expenses. Should we be subject to employment litigation, such as actions involving wage-hour, overtime, break, and working time, we may distract our management from business matters and result in increased labor costs. If costs of labor increase significantly, our business, results of operations, and financial condition may be adversely affected.

***We may not always offset increased costs with increased fees under long-term contracts.***

The pricing and other terms of our customer contracts, particularly our long-term contact center agreements, are based on estimates and assumptions we make at the time we enter into these contracts. These estimates reflect our best judgments regarding the nature of the engagement and our expected costs to provide the contracted services and could differ from actual results. Not all our larger long-term contracts allow for escalation of fees as our cost of operations increase and those that allow for such escalations do not always allow increases at rates comparable to increases that we experience. If and where we cannot negotiate long-term contract terms that provide for fee adjustments to reflect increases in our cost of service delivery, our business, financial conditions, and results of operation would be materially impacted.

***Our business process automation solutions often require long selling cycles and long implementation periods that may result in significant upfront expenses that may not be recovered.***

We often face long selling cycles to secure new contracts for our business process automation solutions. If we are successful in obtaining an engagement, the selling cycle can be followed by a long implementation period during which we plan our services in detail and demonstrate to the customer our ability to successfully integrate our solutions with the customer's internal operations. Our customers may experience delays in obtaining internal approvals or delays associated with technology or system implementations which can further lengthen the selling cycle or implementation period, and certain engagements may also require a ramping up period after implementation before we can commence providing our services. Even if we succeed in developing a relationship with a potential customer and begin to discuss the services in detail, the potential customer may choose a competitor or decide to retain the work in-house prior to the

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time a contract is signed. In addition, once a contract is signed, we sometimes do not begin to receive revenue until completion of the implementation period and our solution is fully operational. The extended lengths of our selling cycles and implementation periods can result in the incurrence of significant upfront expenses that may never result in profits or may result in profits only after a significant period of time has elapsed, which may negatively impact our financial performance. For example, we generally hire new employees to provide services in connection with certain large engagements once a new contract is signed. Accordingly, we may incur significant costs associated with these hires before we collect corresponding revenues. Our inability to obtain contractual commitments after a selling cycle, maintain contractual commitments after the implementation period or limit expenses prior to the receipt of corresponding revenue may have a material adverse effect on our business, results of operations and financial condition.

***We face significant competition from U.S.-based and non-U.S.-based companies and from our customers who may elect to perform their business processes in-house.***

Our industry is highly competitive, fragmented and subject to rapid change. We compete primarily against large multi-national information technology companies, focused BPO companies based in offshore locations, BPO divisions of information technology companies located in India, other BPO and consulting providers that focus on the legal sector and the in-house capabilities of our customers and potential customers. These competitors may include entrants from adjacent industries or entrants in geographic locations with lower costs than those in which we operate.

We believe that the principal competitive factors in our markets are breadth and depth of process expertise, knowledge of industries served, service quality, scalability of solutions, the ability to attract, train and retain qualified people, compliance rigor, global delivery capabilities, outcome-based pricing and sales and customer management capabilities. Some of our competitors have greater financial, marketing, technological or other resources, larger customer bases and more established reputations or brand awareness than we do. In addition, some of our competitors who do not have, or have limited, global delivery capabilities may expand their delivery centers to the countries in which we operate or increase our capacity in lower cost geographies, which could result in increased competition. Some of our competitors may also enter into strategic or commercial relationships among themselves or with larger, more established companies in order to benefit from increased scale and enhanced scope capabilities or enter into similar arrangements with potential customers. Further, we expect competition to intensify in the future as more companies enter our markets and customers consolidate the services they require among fewer vendors. Increased competition, our inability to compete successfully against competitors, pricing pressures or loss of market share could result in reduced operating margins, which could adversely affect our business, results of operations and financial condition.

***Our industry is characterized by rapid technological change and failure to compete successfully within the industry and address rapid technological change could adversely affect our results of operations and financial condition.***

The process of developing new services and solutions is inherently complex and uncertain. It requires accurate anticipation of customers' changing needs and emerging technological trends. We must make long-term investments and commit significant resources before knowing whether these investments will eventually result in services that achieve customer acceptance and generate the revenues required to provide desired returns. If we fail to accurately anticipate and meet our customers' needs through the development of new technologies and service offerings or if our new services are not widely accepted, we could lose market share and customers to our competitors and that could materially adversely affect our results of operations and financial condition.

More specifically, the business process solutions industry is characterized by rapid technological change, evolving industry standards and changing customer preferences. The success of our business depends, in part, upon our ability to develop technology and solutions that keep pace with changes in our industry and the industries of our customers. Although we have made, and will continue to make, significant investments in the research, design and development of new technology and platforms-driven solutions, we may not be successful in addressing these changes on a timely basis or in marketing the changes we implement. In addition, products or technologies developed by others may render our services uncompetitive or obsolete. Failure to address these developments could have a material adverse effect on our business, results of operations and financial condition.

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In addition, existing and potential customers are actively shifting their businesses away from paper-based environments to electronic environments with reduced needs for physical document management and processing. This shift may result in decreased demand for the physical document management services we provide such that our business and revenues may become more reliant on technology-based services in electronic environments, which are typically provided at lower prices compared to physical document management services. Though we have solutions for customers seeking to make these types of transitions, a significant shift by our customers away from physical documents to non-paper based technologies, whether now existing or developed in the future, could adversely affect our business, results of operation and financial condition.

Also, some of the large international companies in the industry have significant financial resources and compete with us to provide document processing services and/or business process services. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, distribution and customer service and support. Our success in future performance is largely dependent upon our ability to compete successfully, to promptly and effectively react to changing technologies and customer expectations and to expand into additional market segments. To remain competitive, we must develop services and applications; periodically enhance our existing offerings; remain cost efficient; and attract and retain key personnel and management. If we are unable to compete successfully, we could lose market share and important customers to our competitors and that could materially adversely affect our results of operations and financial condition.

***We rely, in some cases, on third-party hardware and software, which could cause errors or failures of our services and could also result in adverse effects for our business and reputation if these third-party services fail to perform properly or are no longer available.***

Although we developed our platform-driven solutions internally, we rely, in some cases, on third-party hardware and software in connection with our service offerings which we either purchase or lease from third-party vendors. We are generally able to select from a number of competing hardware and software applications, but the complexity and unique specifications of the hardware or software makes design defects and software errors difficult to detect. Any errors or defects in third-party hardware or software incorporated into our service offerings, may result in a delay or loss of revenue, diversion of resources, damage to our reputation, the loss of the affected customer, loss of future business, increased service costs or potential litigation claims against us.

Further, this hardware and software may not continue to be available on commercially reasonable terms or at all. Any loss of the right to use any of this hardware or software could result in delays in the provisioning of our services, which could negatively affect our business until equivalent technology is either developed by us or, if available, is identified, obtained and integrated. In addition, it is possible that our hardware vendors or the licensors of third-party software could increase the prices they charge, which could have a material adverse impact on our results of operations. Further, changing hardware vendors or software licensors could detract from management’s ability to focus on the ongoing operations of our business or could cause delays in the operations of our business.

***Some of the work we do involves greater risks than other types of claims processing or document management engagements.***

We provide certain business process solutions for customers that, for financial, legal or other reasons, may present higher risks compared to other types of claims processing or document management engagements. Examples of higher risk engagements include, but are not limited to:

- class action and other legal distributions involving significant sums of money;
- economic analysis and expert testimony in high stakes legal matters; and
- engagements where we receive or process sensitive data, including personal consumer or private health information.

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While we attempt to identify higher risk engagements and customers and mitigate our exposure by taking certain preventive measures and, where necessary, turning down certain engagements, these efforts may be ineffective and an actual or alleged error or omission on our part, the part of our customer or other third parties or possible fraudulent activity in one or more of these higher-risk engagements could result in the diversion of management resources, damage to our reputation, increased service costs or impaired market acceptance of our services, any of which could negatively impact our business and our financial condition.

***We encounter professional conflicts of interest.***

We encounter professional conflicts of interest, particularly in our provision of expert witness testimony in certain of our legal engagement services. Although we have systems and procedures to identify potential conflicts of interest prior to accepting a new engagement, there is no guarantee that all potential conflicts of interest will be identified, and undetected conflicts may result in damage to our reputation and result in professional liability, which may adversely impact our business and results of operations. If we are unable to accept new engagements for any reason, including business and legal conflicts, our professionals may become underutilized or discontented, which may adversely affect our future revenues and results of operations, as well as our ability to retain these professionals.

***New, more stringent privacy and data security regulations may have a negative impact on our business.***

Any inability to adequately address privacy and security concerns could result in expenses and liability, and adverse impact on us. Moreover, international privacy and data security regulations may become more complex and have greater consequences. For instance, as of May 25, 2018, the General Data Protection Regulation, or GDPR, has replaced the Data Protection Directive with respect to the collection and use of personal data of data subjects in the EU. The GDPR applies extra territorially and imposes several stringent requirements for controllers and processors of personal data, including, for example, higher standards for obtaining consent from individuals to process their personal data, more robust disclosures to individuals and a strengthened individual data rights regime, shortened timelines for data breach notifications, limitations on retention of information, increased requirements pertaining to health data, other special categories of personal data and pseudonymised (i.e., key-coded) data and additional obligations when we contract third-party processors in connection with the processing of the personal data. The GDPR provides that EU member states may make their own further laws and regulations limiting the processing of personal data, including genetic, biometric or health data, which could limit our ability to use and share personal data or could cause our costs could increase, and harm our business and financial condition. Failure to comply with the requirements of GDPR and the applicable national data protection laws of the EU Member States may result in fines of up to €20,000,000 or up to 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher, and other administrative penalties. Further, as the GDPR has recently come into effect, enforcement priorities and interpretation of certain provisions are still unclear. Industry groups also impose self-regulatory standards that bind us by their incorporation into the contracts we execute. For example, should we fail to be compliant with the PCIDSS we may be subject to fines and other penalties.

***Our business could be materially and adversely affected if we do not protect our intellectual property or if our services are found to infringe on the intellectual property of others.***

Our success depends in part on certain methodologies and practices we utilize in developing and implementing applications and other proprietary intellectual property rights. In order to protect such rights, we rely upon a combination of nondisclosure and other contractual arrangements, as well as trade secret, copyright, trademark and patent laws. We also generally enter into confidentiality agreements with our employees, customers and potential customers and limit access to and distribution of our proprietary information. There can be no assurance that the laws, rules, regulations and treaties in effect in the U.S., India and the other jurisdictions in which we operate and the contractual and other protective measures we take are adequate to protect us from misappropriation or unauthorized use of our intellectual property, or that such laws will not change. There can be no assurance that the resources invested by us to protect our intellectual property will be sufficient or that our intellectual property portfolio will adequately deter misappropriation or improper use of our technology, and our intellectual property rights may not prevent competitors from independently developing or selling products and services similar to or duplicative of ours. We may not be able to detect unauthorized use and take appropriate steps to enforce our rights, and any such steps may be costly and unsuccessful. Infringement by

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others of our intellectual property, including the costs of enforcing our intellectual property rights, may have a material adverse effect on our business, results of operations and financial condition. We could also face competition in some countries where we have not invested in an intellectual property portfolio. If we are not able to protect our intellectual property, the value of our brand and other intangible assets may be diminished, and our business may be adversely affected. Further, although we believe that we are not infringing on the intellectual property rights of others, claims may nonetheless be successfully asserted against us in the future, and we may be the target of enforcement of patents by third parties, including aggressive and opportunistic enforcement claims by non-practicing entities. Regardless of the merit of such claims, responding to infringement claims can be expensive and time-consuming. If we are found to infringe any third-party rights, we could be required to pay substantial damages or we could be enjoined from offering some of our products and services. The costs of defending any such claims could be significant, and any successful claim may require us to modify our services. The value of, or our ability to use, our intellectual property may also be negatively impacted by dependencies on third parties, such as our ability to obtain or renew on reasonable terms licenses that we need in the future, or our ability to secure or retain ownership or rights to use data in certain software analytics or services offerings. Any such circumstances may have a material adverse effect on our business, results of operations and financial condition.

***We generate a significant portion of our revenues from a small number of customers, and any loss of business from these customers could materially reduce our revenues.***

We have derived, and believe that in the foreseeable future we will continue to derive, a significant portion of our revenues from a small number of customers. While we have no one customer that accounts for more than 10% of our revenue, for each of the years ended December 31, 2018 and 2017, our ten largest customers accounted for approximately 30% of our revenues.

Our ability to maintain close relationships with these and other major customers is essential to the growth and profitability of our business. However, the volume of work performed for a specific customer is likely to vary from year to year. A major customer in one year may not provide the same level of revenues for us in any subsequent year and there can be no assurance that any customer will extend or renew its contract with us. The business process solutions we provide to our customers, and the revenues and net income from those services, may decline or vary as the type and quantity of services we provide change over time. Furthermore, our reliance on any individual customer for a significant portion of our revenues may give that customer a certain degree of pricing leverage against us when negotiating contracts and terms of service.

In addition, a number of factors other than our performance could cause the loss of or reduction in business or revenues from a customer, and these factors are not predictable. For example, a customer may decide to reduce spending on business process solutions from us due to a challenging economic environment or other factors, both internal and external, relating to our business. These factors may include corporate restructuring, pricing pressure, changes to our outsourcing strategy, switching to another BPO provider or returning work in-house or other changes in a customer’s prospects or profitability. The loss of any of our major customers, or a significant decrease in the volume of work they give to us or the price at which we are able to provide our services to them, could materially adversely affect our revenues and thus our results of operations.

***Our revenues are highly dependent on a limited number of industries, and any decrease in demand for business process solutions in these industries could reduce our revenues and adversely affect the results of operations.***

A substantial portion of our revenues are derived from three specific industry-based segments: ITPS, HS, and LLPS. Customers in ITPS accounted for 80.3% and 71.8% of our revenues in 2018 and 2017, respectively. Customers in HS accounted for 14.4% and 20.3% of our revenues in 2018 and 2017, respectively. Customers in LLPS accounted for 0.0% and 5.3% of our revenues in 2018 and 2017, respectively.

Our success largely depends on continued demand for our services from customers in these segments, and a downturn or reversal of the demand for business process solutions in any of these segments, or the introduction of regulations that restrict or discourage companies from engaging our services, could materially adversely affect our business, financial condition and results of operations. For example, consolidation in any of these industries or

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combinations or mergers, particularly involving our customers, may decrease the potential number of customers for our services. We have been affected by the worsening of economic conditions and significant consolidation in the financial services industry, and continuation of this trend may negatively affect our revenues and profitability.

***Our future profitability and ability to sustain positive cash flow is uncertain.***

Our future profitability depends on, among other things, our ability to generate revenue in excess of our expenses. However, we have significant and continuing fixed costs relating to the maintenance of our assets and business, including debt service requirements, which we may not be able to reduce adequately to sustain our profitability if our revenue decreases. Our profitability also may be impacted by non-cash charges such as stock-based compensation charges and potential impairment of goodwill, which will negatively affect our reported financial results. Even if we achieve profitability on an annual basis, we may not be able to achieve profitability on a quarterly basis. You should not consider prior revenue growth as indicative of our future performance. In fact, in future quarters, we may not have any revenue growth or our revenue could decline. We may incur significant losses in the future for a number of reasons and risks described elsewhere herein and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown events.

Our ability to continue to generate positive cash flow depends on our ability to generate collections from sales in excess of our cash expenditures. Our ability to generate and collect on sales can be negatively affected by many factors, including but not limited to our inability to convince new customers to use our services or existing customers to renew their contracts or use additional services; the lengthening of our sales cycles and implementation periods; changes in our customer mix; a decision by any of our existing customers to cease or reduce using our services; failure of customers to pay our invoices on a timely basis or at all; a failure in the performance of our solutions or internal controls that adversely affects our reputation or results in loss of business; the loss of market share to existing or new competitors; the failure to enter or succeed in new markets; regional or global economic conditions or regulations affecting perceived need for or value of our services; or our inability to develop new offerings, expand our offerings or drive adoption of our new offerings on a timely basis and thus potentially not meeting evolving market needs.

We anticipate that we will incur increased sales and marketing and general and administrative expenses as we continue to diversify our business into new industries and geographic markets. Our business will also require significant amounts of working capital to support our growth. We may not achieve collections from sales to offset these anticipated expenditures sufficient to maintain positive future cash flow. In addition, we may encounter unforeseen expenses, difficulties, complications, delays and other unknown events that cause our costs to exceed our expectations. An inability to generate positive cash flow may decrease our long-term viability.

***We have a significant amount of intangible assets that could be materially impacted.***

Goodwill and other intangible assets that have indefinite useful lives are not amortized but rather are evaluated annually for impairment and more frequently if a triggering event occurs. The valuation of goodwill for impairment involves a high degree of judgment. Based on our estimates and assumptions underlying the valuation, impairment is determined by estimating the fair value of a reporting unit and comparing that value to the reporting unit's book value. If economic events occur that cause us to revise our estimates and assumptions used in determining the fair value of our goodwill, such revisions could result in an impairment charge that could have a material adverse impact on our financial statements during the period incurred.

***We derive significant revenue and profit from commercial and government contracts awarded through competitive bidding processes, including renewals, which can impose substantial costs on us, and we will not achieve revenue and profit objectives if we fail to accurately and effectively bid on such projects.***

Many of these contracts are extremely complex and require the investment of significant resources in order to prepare accurate bids and proposals. Competitive bidding imposes substantial costs and presents a number of risks, including: (i) the substantial cost and managerial time and effort that we spend to prepare bids and proposals for contracts that may or may not be awarded to us; (ii) the need to estimate accurately the resources and costs that will be required to implement and service any contracts we are awarded, sometimes in advance of the final determination of

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their full scope and design; (iii) the expense and delay that may arise if our competitors protest or challenge awards made to us pursuant to competitive bidding and the risk that such protests or challenges could result in the requirement to resubmit bids and in the termination, reduction or modification of the awarded contracts; and (iv) the opportunity cost of not bidding on and winning other contracts we might otherwise pursue. If our competitors protest or challenge an award made to us on a government contract, the costs to defend such an award may be significant and could involve subsequent litigation that could take years to resolve.

***Our profitability is dependent upon our ability to obtain adequate pricing for our services and to improve our cost structure.***

Our success depends on our ability to obtain adequate pricing for our services. Depending on competitive market factors, future prices we obtain for our services may decline from previous levels. If we are unable to obtain adequate pricing for our services, it could materially adversely affect our results of operations and financial condition. In addition, our contracts are increasingly requiring tighter timelines for implementation as well as more stringent service level metrics. This makes the bidding process for new contracts much more difficult and requires us to adequately consider these requirements in the pricing of our services.

We regularly review our operations with a view towards reducing our cost structure, including, without limitation, reducing our employee base, exiting certain businesses, improving process and system efficiencies and outsourcing some internal functions. We, from time to time, engage in restructuring actions to reduce our cost structure. If we are unable to continue to maintain our cost base at or below the current level and maintain process and systems changes resulting from prior restructuring actions or to realize the expected cost reductions in the ongoing strategic transformation program, it could materially adversely affect our results of operations and financial condition.

In addition, in order to meet the service requirements of our customers, which often includes 24/7 service, and to optimize our employee cost base, including our back-office support, we often locate our delivery service and back-office support centers in lower-cost locations, including several developing countries. Concentrating our centers in these locations presents a number of operational risks, many of which are beyond our control, including the risks of political instability, natural disasters, safety and security risks, labor disruptions, excessive employee turnover and rising labor rates. Additionally, a change in the political environment in the U.S. or the adoption and enforcement of legislation and regulations curbing the use of such centers outside of the U.S. could materially adversely affect our results of operations and financial condition. These risks could impair our ability to effectively provide services to our customers and keep our costs aligned to our associated revenues and market requirements.

Our ability to sustain and improve profit margins is dependent on a number of factors, including our ability to continue to improve the cost efficiency of our operations through such programs as robotic process automation, to absorb the level of pricing pressures on our services through cost improvements and to successfully complete information technology initiatives. If any of these factors adversely materialize or if we are unable to achieve and maintain productivity improvements through restructuring actions or information technology initiatives, our ability to offset labor cost inflation and competitive price pressures would be impaired, each of which could materially adversely affect our results of operations and financial condition.

***We are subject to regular customer and third-party security reviews and failure to pass these may have an adverse impact on our operations.***

Many of our customer contracts require that we maintain certain physical and/or information security standards, and, in certain cases, we permit a customer to audit our compliance with these contractual standards. Any failure to meet such standards or pass such audits may have a material adverse impact on our business. Further, customers from time to time may require stricter physical and/or information security than they negotiated in their contracts, and may condition continued volumes and business on the satisfaction of such additional requirements. Some of these requirements may be expensive to implement or maintain, and may not be factored into our contract pricing. Further, on an annual basis we obtain third-party audits of certain of our locations in accordance with Statement on Standards for Attestation Engagements No. 16 (SSAE 16) put forth by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA). SSAE 16 is the current standard for reporting on controls at service organizations, and

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many of our customers expect that we will perform an annual SSAE 16 audit, and report to them the results. Negative findings in such an audit and/or the failure to adequately remediate in a timely fashion such negative findings may cause customers to terminate their contracts or otherwise have a material adverse effect on our reputation, results of operation and financial condition.

***Failure to adhere to the regulations that govern our business could have an adverse impact on our operations.***

Our customers are often subject to regulations that may require that we comply with certain rules and regulations in performing services for them that would not otherwise apply to us. U.S. federal laws and regulations that apply to certain portions of our business include the Gramm-Leach-Bliley Act, HIPAA, and the HITECH Act of 2009. We must also comply with applicable regulations relating to healthcare and other personal information that we processes as part of our services. Due to our global delivery model, we are also subject to the burden and expense of complying with the laws and regulations of various jurisdictions and changes thereto which are beyond our control. In addition, our contracts with some of our customers require us to remain knowledgeable about and comply with a number of additional relevant consumer protection laws and other regulatory requirements. Failure to perform our services in a manner that complies with any such requirement could result in breaches of contracts with our customers. Our failure to comply with any applicable laws and regulations could subject us to civil fines and criminal penalties.

***A significant portion of our assets and operations are located in India, the Philippines, China and Mexico, and we are subject to regulatory, economic and political uncertainties in those locations.***

A significant number of our operations centers are located in India, the Philippines and China and a majority of our assets and our professionals are located in those locations. We intend to continue to develop and expand our facilities in these areas. Our financial performance may be adversely affected by general economic conditions and economic and fiscal policy in these countries, including changes in exchange rates and controls, interest rates and taxation policies, as well as social stability and political, economic or diplomatic developments affecting those countries in the future. These countries have experienced significant economic growth over the last several years, but face major challenges in sustaining that growth in the years ahead. These challenges include the need for substantial infrastructure development and improving access to healthcare and education. Our ability to recruit, train and retain qualified employees, develop and operate our operations centers, and attract and retain customers could be adversely affected if these countries do not successfully meet these challenges.

In the early 1990s, India experienced significant inflation, low growth in gross domestic product and shortages of foreign currency reserves. The Indian government, however, has exercised and continues to exercise significant influence over many aspects of the Indian economy. India's government has provided significant tax incentives and relaxed certain regulatory restrictions in order to encourage foreign investment in specified sectors of the economy, including the BPO industry. Certain of those programs that have benefited us include tax holidays, liberalized import and export duties and preferential rules on foreign investment and repatriation. We cannot assure you that liberalization policies will continue. Various factors, such as changes in the current federal government, could trigger significant changes in India's economic liberalization and deregulation policies and disrupt business and economic conditions in India generally and our business in particular.

The Philippines has experienced significant inflation, currency declines and shortages of foreign exchange. In addition, the Philippines has experienced and may continue to experience civil unrest, terrorism and political turmoil, resulting in temporary work stoppages and technology outages. These instabilities and any adverse changes in the political environment in the Philippines could increase our operational costs, increase our exposure to legal and business risks and make it more difficult for us to operate our business in the Philippines.

Our business operations in China may be adversely affected by our current and future political environment. The Chinese government can exert substantial influence and control over the manner in which companies in China conduct business. Under the current government leadership, the government of China has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of China will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

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Our ability to efficiently conduct our business activities in Mexico is subject to changes in government policy or shifts in political attitudes that are beyond our control. Government policy may change to discourage foreign investment, nationalization of industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. In addition, Mexico may experience political instability, which may result in outbreaks of civil unrest, drug-related violence, terrorist attacks or threats or acts of war in the affected areas, any of which could materially and adversely affect our business, prospects, financial condition and results of operations.

***Introduction of tax legislation and disputes with tax authorities may have an adverse effect on our operations and our overall tax rate.***

Governments in countries in which we operate or provide services could enact new tax legislation that could have a material adverse effect on our overall effective tax rate. In addition, our ability to repatriate surplus earnings, if any, from our operations centers in a tax-efficient manner is dependent upon interpretations of local laws, possible changes in such laws and the renegotiation of existing double tax avoidance treaties. Changes to any of these may adversely affect our overall tax rate, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, the transfer pricing regulations of the U.S. and certain foreign jurisdictions, including India, require that any cross-border transaction involving related parties be at an arm's-length price. Accordingly, we base our pricing between our foreign subsidiaries and related parties on a functional and economic analysis involving benchmarking against transactions among entities that are not related. However, the tax authorities have jurisdiction to review our transfer-pricing policy. If they conclude the policy was not applied appropriately, we may incur additional tax liability, including accrued interest and penalties. As an example, we have previously received an adverse order from the Indian Tax Tribunal over the application of some of our transfer pricing policies. This decision may be overturned only by appeal to India's Supreme Court. However, it is highly uncertain the matter would ultimately be decided in our favor. Based on the adverse Indian tax tribunal's decision, advice from tax advisors, and the noted trend of Indian tax authorities aggressively pursuing higher transfer prices from multi-national companies, we believe it is probable that we may experience future assessments of tax, penalty and interest in connection with our Indian transfer-pricing policy. Accordingly, reserves have been established on our balance sheet. However, these reserves may not be sufficient. As we continue to expand our operations, we may be subject to similar liability/exposure in additional geographies/jurisdictions.

***We may suffer increases in tax expenses and face uncertain future tax liabilities due to enactment of the Tax Cuts and Jobs Act.***

On December 22, 2017, new U.S. federal income tax legislation was enacted (the "Tax Cuts and Jobs Act" or "TCJA"). The TCJA, among other things, contains significant changes to U.S. federal corporate income taxation, including reduction of the U.S. federal corporate income tax rate from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks for net operating losses arising after December 31, 2017, immediate deductions for certain new investments instead of deductions for depreciation expense over time, and creating, modifying or repealing many business deductions and credits. Federal net operating losses arising in taxable year ending after December 31, 2017 will be carried forward indefinitely pursuant to the TCJA.

For 2018 and beyond, the main known impact to our operations is the TCJA's limitations on interest expense deductions. We use significant leverage to finance our business and, therefore, we incur significant interest expense. We continue to examine the impact this tax reform legislation may have on our business. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the TCJA is uncertain and our business and financial condition could be adversely affected.

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***Sales tax laws in the U.S. may change resulting in service providers having to collect sales taxes in states where the current laws do not require us to do so. This could result in substantial tax liabilities.***

Our U.S. subsidiaries collect and remit sales tax in states in which the subsidiaries have physical presence or in which we believe sufficient nexus exists which obligates us to collect sales tax. Other states may, from time to time, claim that we have state-related activities constituting physical nexus to require such collection. Additionally, many other states seek to impose sales tax collection or reporting obligations on companies that sell goods to customers in their state, or directly to the state and its political subdivisions, regardless of physical presence. Such efforts by states have increased recently, as states seek to raise revenues without increasing the income tax burden on residents. We rely on U.S. Supreme Court decisions which hold that, without Congressional authority, a state may not enforce a sales tax collection obligation on a company that has no physical presence in the state. We cannot predict whether the nature or level of contacts we have with a particular state will be deemed enough to require us to collect sales tax in that state nor can we be assured that Congress or individual states will not approve legislation authorizing states to impose tax collection or reporting obligations on our activities. A successful assertion by one or more states that we should collect sales tax could result in substantial tax liabilities related to past sales and would result in considerable administrative burdens and costs for us.

***Restrictions on entry visas may affect our ability to compete for and provide services to customers in the U.S., which could have a material adverse effect on future revenues.***

A significant number of our employees are foreign nationals, including from India, the Philippines and China. Certain members of our development team based in India travel to the U.S. on a regular basis to facilitate new project development, including the implementation of new contracts and to meet our U.S. customers. The ability of these employees to travel to the U.S. and other countries in which we do business depends on the ability to obtain the necessary visas and entry permits.

In response to political forces, terrorist attacks, the global economic downturn, public sentiments of high unemployment rates in certain parts of the U.S. and other events, U.S. immigration authorities have increased the level of scrutiny in granting visas and applicable immigration laws may be subject to legislative change and varying standards of application and enforcement. We cannot predict the political or economic events that could affect immigration laws or any restrictive impact those events could have on obtaining or monitoring entry visas for our professionals.

***Investors may have difficulty effecting service of process or enforcing judgments obtained in the U.S. against our non-U.S. subsidiaries.***

We have significant operating subsidiaries that are organized outside the U.S. A portion of our assets are located in India, the Philippines, China, Mexico, and Canada. As a result, you may be unable to effect service of process upon our affiliates who reside in these jurisdictions. In addition, you may be unable to enforce against these persons outside the jurisdiction of their residence judgments obtained in U.S. courts, including judgments predicated solely upon U.S. federal securities laws.

***Currency fluctuations among the Euro, British Pound, Indian rupee, the Philippine Peso, the Mexican Peso, the Canadian Dollar, the Chinese Yuan and the U.S. Dollar could have a material adverse effect on our results of operations.***

We operate internationally and as a result, are subject to risks associated with doing business globally, such as risks related to the differing legal, political and regulatory requirements and economic conditions of many jurisdictions. Risks inherent to operating internationally include changes in a country's economic or political conditions, in foreign currency exchange rates, regulatory requirements and enforcement of intellectual property rights.

The functional currencies of our businesses outside of the U.S. are the local currencies. Changes in exchange rates between these foreign currencies and the U.S. Dollar will affect the recorded levels of our assets, liabilities, net sales, cost of goods sold and operating margins and could result in exchange gains or losses. The primary foreign currencies to which we have exposure are the European Union Euro, Swedish Krona, British Pound Sterling, Canadian

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Dollar and Indian rupees. Exchange rates between these currencies and the U.S. Dollar in recent years have fluctuated significantly and may do so in the future. Our operating results and profitability may be affected by any volatility in currency exchange rates and our ability to manage effectively currency transaction and translation risks. To the extent the U.S. Dollar strengthens against foreign currencies, our foreign revenues and profits will be reduced when translated into U.S. Dollars.

Although the vast majority of our revenues are denominated in U.S. dollars, a significant portion of our expenses are incurred and paid in Euros, British Pound Sterling, Swedish Krona, Indian rupees, and to a lesser extent in other currencies, including the Philippine Peso, the Mexican Peso, the Canadian dollar and the Chinese Yuan. We report our financial results in U.S. Dollars. The exchange rate between the Indian rupee and the U.S. Dollar has changed substantially in recent years and may fluctuate substantially in the future. Our results of operations may be adversely affected if such fluctuations continue, or increase, or other currencies fluctuate significantly against the U.S. Dollar.

Although we do not currently take steps to hedge our foreign currency exposures, should we choose in the future to implement a hedging strategy, there can be no assurance that our hedging strategy will be successful or that the hedging markets would have sufficient liquidity or depth to allow us to implement such a hedging strategy in a cost-effective manner. Further, the success of any potential hedging strategy could be impacted by any failure by the hedging counterparties to meet their contractual obligations.

***We are subject to laws of the United States and foreign jurisdictions relating to processing certain financial transactions, including payment card transactions and debit or credit card transactions, and failure to comply with those laws could subject us to legal actions and materially adversely affect our results of operations and financial condition.***

We process, support and execute financial transactions, and disburse funds, on behalf of both government and commercial customers, often in partnership with financial institutions. This activity includes receiving debit and credit card information, processing payments for and due to our customers and disbursing funds on payment or debit cards to payees of our customers. As a result, the transactions we process may be subject to numerous United States (both federal and state) and foreign jurisdiction laws and regulations, including the Electronic Fund Transfer Act, as amended, the Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (including the so-called Durbin Amendment), as amended, the Gramm-Leach-Bliley Act (also known as the Financial Modernization Act of 1999), as amended, and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended. Other United States (both federal and state) and foreign jurisdiction laws apply to our processing of certain financial transactions and related support services. These laws are subject to frequent changes, and new statutes and regulations in this area may be enacted at any time. Changes to existing laws, the introduction of new laws in this area or failure to comply with existing laws that are applicable to us may subject us to, among other things, additional costs or changes to our business practices, liability for monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to process and support financial transactions and allegations by our customers, partners and clients that we have not performed our contractual obligations. Any of these could materially adversely affect our results of operations and financial condition.

***Failure to comply with the U.S. Foreign Corrupt Practices Act, or the FCPA, economic and trade sanctions, regulations, and similar laws could subject us to penalties and other adverse consequences.***

We operate our business in several foreign countries with developing economies, where companies often engage in business practices that are prohibited by U.S. and other regulations applicable to us. We are subject to anti-corruption laws and regulations, including the FCPA, the U.K. Bribery Act and other laws that prohibit the making or offering of improper payments to foreign government officials and political figures, including ant bribery provisions enforced by the Department of Justice and accounting provisions enforced by the SEC. These laws prohibit improper payments or offers of payments to foreign governments and their officials and political parties by the U.S. and other business entities for the purpose of obtaining or retaining business. We have implemented policies to identify and address potentially impermissible transactions under such laws and regulations; however, there can be no assurance that all of our and our subsidiaries' employees, consultants, and agents, including those that may be based in or from

countries where practices that violate U.S. or other laws may be customary, will not take actions in violation of our policies, for which we may be ultimately responsible.

We are also subject to certain economic and trade sanctions programs that are administered by the Department of Treasury's Office of Foreign Assets Control, or OFAC, which prohibit or restrict transactions to or from or dealings with specified countries, their governments, and in certain circumstances, their nationals, and with individuals and entities that are specially-designated nationals of those countries, narcotics traffickers, and terrorists or terrorist organizations. Our subsidiaries may be subject to additional foreign or local sanctions requirements in other relevant jurisdictions.

***Fluctuations in the costs of paper, ink, energy, by-products and other raw materials may adversely impact the results of our operations.***

Purchases of paper, ink, energy and other raw materials represent a large portion of our costs. Increases in the costs of these inputs may increase our costs and we may not be able to pass these costs on to customers through higher prices. In addition, we may not be able to resell waste paper and other print-related by-products or may be adversely impacted by decreases in the prices for these by-products. Increases in the cost of materials may adversely impact customers' demand for our printing and printing-related services.

***We may be required to take write downs or write-offs, restructuring and impairment or other charges that could have a significant negative effect on our financial condition, results of operations and stock price, which could cause you to lose some or all of your investment.***

Although we conducted due diligence before the consummation of the Novitex Business Combination with respect to SourceHOV and Novitex, we cannot assure you that this diligence revealed all material issues that may be present in our current businesses, that it would be possible to uncover all material issues through a customary amount of due diligence, or that factors outside of our control will not later arise. As a result, we may be forced to write down or write off assets, restructure our operations, or incur impairment or other charges that could result in losses. Unexpected risks may arise and previously known risks may materialize in a manner not consistent with our risk analysis with respect to the Novitex Business Combination. Even though these charges may be non-cash items and may not have an immediate impact on our liquidity, the fact that we report charges of this nature could contribute to negative market perceptions about us or our securities, including, without limitation, our Common Stock.

***The market for our securities remains volatile and may not continue, which would adversely affect the liquidity and price of our securities.***

The price of our securities, including, without limitation, our Common Stock, may continue to fluctuate significantly. An active trading market for our securities following the Novitex Business Combination may not further develop or be sustained. In addition, the price of our securities can fluctuate due to general economic conditions and forecasts, our general business condition and the release of our financial reports.

***If we are not able to comply with the applicable continued listing requirements or standards of Nasdaq, Nasdaq could delist our common stock.***

Our Common Stock is currently listed on the Nasdaq. In order to maintain that listing, we must satisfy minimum financial and other continued listing requirements and standards, including those regarding director independence and independent committee requirements, minimum stockholders' equity, minimum share price, and certain corporate governance requirements. There can be no assurances that we will be able to comply with the applicable listing standards.

In the event that our common stock is delisted from Nasdaq and is not eligible for quotation or listing on another market or exchange, trading of our common stock could be conducted only in the over-the-counter market or on an electronic bulletin board established for unlisted securities such as the Pink Sheets or the OTC Bulletin Board. In such event, it could become more difficult to dispose of, or obtain accurate price quotations for, our common stock, and there

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would likely also be a reduction in our coverage by securities analysts and the news media, which could cause the price of our common stock to decline. Also, it may be difficult for us to raise additional capital if we are not listed on a major exchange.

Such a de-listing would also likely have a negative effect on the price of our Common Stock. In the event of a de-listing, we may take actions to restore our compliance with Nasdaq's listing requirements, but we can provide no assurance that any such action taken by us would allow our Common Stock to become listed again, stabilize the market price or improve the liquidity of our common or prevent future non-compliance with Nasdaq's listing requirements.

***Changes in laws or regulations, or a failure to comply with any laws and regulations, may adversely affect our business, investments and results of operations.***

We are subject to laws, regulations and rules enacted by national, regional and local governments and Nasdaq. In particular, we are required to comply with certain SEC, Nasdaq and other legal or regulatory requirements. Compliance with, and monitoring of, applicable laws, regulations and rules may be difficult, time consuming and costly. Those laws, regulations and rules and their interpretation and application may also change from time to time and those changes could have a material adverse effect on our business, investments and results of operations. In addition, a failure to comply with applicable laws, regulations and rules, as interpreted and applied, could have a material adverse effect on our business and results of operations.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We lease and own numerous facilities worldwide with larger concentrations of space in Texas, Michigan, Connecticut, California, India, Mexico, the Philippines, and China. The size of our active property portfolio as of December 31, 2018 was approximately 4.4 million square feet (square feet) and comprised of 178 leased properties and 7 owned properties. offices, sales offices, service locations, and production facilities. Many of our operating facilities are equipped with fiber connectivity and have access to other power sources. Substantially all of our operations facilities are leased under long-term leases with varying expiration dates, except for the following owned locations: (i) three operations facilities in India with a combined building area of approximately 91,500 sq. ft., respectively, (ii) an operating facility in Georgiana, Alabama with an approximate building area of 20,000 sq. ft., (iii) an operating facility in Tallahassee, Florida consisting of four buildings with a combined building area of approximately 21,000 sq. ft., (iv) an operating facility in Troy, Michigan that will serve as the Company's primary data center with an approximate building area of 66,000 sq. ft. (v) an operating facility in Egham, England with an approximate building area of 11,000 sq. ft., and (vi) an innovation center in New York, NY with an approximate building area of 2,200 sq. ft. We also maintain an operating presence at approximately 1,100 customer sites.

Our properties are suitable to deliver services to our customers for each of our business segments. Our management believes that all of our properties and facilities are well maintained.

**ITEM 3. LEGAL PROCEEDINGS**

*Appraisal Demand*

On September 21, 2017, former stockholders of SourceHOV, who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the Novitex Business Combination, which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their shares at the time of the Novitex Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses.

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On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). Discovery in the Appraisal Action is not yet complete. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate any loss or range of loss that may arise from the Appraisal Action. Pursuant to the terms of the Novitex Business Combination Agreement, if such appraisal rights are perfected, a corresponding portion of shares of our Common Stock issued to Ex-Sigma 2 LLC, our principal stockholder, will be forfeited at such time as the PIPE Financing (as defined in the Consent, Waiver and Amendment dated June 15, 2017) is repaid. The Company intends to vigorously defend against the Appraisal Action.

*Other*

We are, from time to time, involved in other legal proceedings, inquiries, claims and disputes, which arise in the ordinary course of business. Although our management cannot predict the outcomes of these matters, our management believes these actions will not have a material, adverse effect on our financial position, results of operations or cash flows.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

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# PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

**Market Information**

Our Common Stock is traded on the Nasdaq composite under the symbol "XELA." Set forth below is the high and low sales price of our Common Stock during the periods presented.

| | Sales Price | |
|---|---|---|
| | High | Low |
| **Year Ended December 31, 2018** | | |
| Fourth Quarter | $ 7.02 | $ 3.46 |
| Third Quarter | 7.34 | 4.65 |
| Second Quarter | 5.87 | 4.32 |
| First Quarter | 6.42 | 5.08 |
| **Year Ended December 31, 2017** | | |
| Fourth Quarter | $ 6.10 | $ 4.37 |
| Third Quarter (1) | 10.00 | 4.40 |
| Second Quarter | 10.03 | 7.66 |
| First Quarter | 10.15 | 9.93 |

(1) Our Common Stock began trading on the Nasdaq under the symbol "XELA" on July 13, 2017, the day following the closing of the Novitex Business Combination. From March 9, 2015 until the July 12, 2017 closing of the Novitex Business Combination common equity of Quinpario was traded on the Nasdaq under the symbol "QPAC." Unlike our Common Stock, the common equity traded under the symbol QPAC had cash redemption rights and other features that ceased upon the filing of a new certificate of incorporation in connection with the closing of the Novitex Business Combination. Information provided above includes data for QPAC for the period prior to July 13, 2017.

**Stockholders**

As of March 11, 2019 we had 47 record holders of our Common Stock.

**Dividends**

We have not paid any cash dividends on shares of our Common Stock. The payment of cash dividends in the future will be dependent upon our revenues and earnings, capital requirements, general financial condition, and is within the discretion of our board of directors.

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**Equity Compensation Plan Information**

The following table provides information as of December 31, 2018, with respect to the shares of our Common Stock that may be issued under our existing equity compensation plans.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, RSU, Warrants and Rights | Weighted Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(1) |
|---|---|---|---|
| Equity compensation plans approved by stockholders | 4,617,750 | 6.06 | 7,176,262 |
| Equity compensation plans not approved by stockholders | — | — | — |
| Total | 4,617,750 | 6.06 | 7,176,262 |

(1) The Company currently maintains the 2018 Stock Incentive Plan, which was approved by our board of directors on December 19, 2017 and subsequently approved by a majority of our stockholders by written consent on December 20, 2017. The 2018 Stock Incentive Plan became effective on January 17, 2018 and there are 8,196,482 shares of our Common Stock reserved for issuance under our 2018 Stock Incentive Plan.

**Sale of Unregistered Securities**

There were no unregistered sales of equity securities in 2018 that have not been previously reported in a Quarterly Report on Form 10-Q or Current Report on Form 8-K.

**Issuer Purchases of Equity Securities**

The table below sets forth information with respect to purchases made by or on behalf of us or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of shares of our Common Stock during the period of November 8, 2017 through the year ended December 31, 2017:

| Period | Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1) | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1) |
|---|---|---|---|---|
| **Year Ended December 31, 2017** | | | | |
| Fourth Quarter | 49,300 | $ 4.97 | 49,300 | 4,950,700 |
| **Year Ended December 31, 2018** | | | | |
| First Quarter | — | — | 49,300 | 4,950,700 |
| Second Quarter | 768,693 | 4.79 | 817,993 | 4,182,007 |
| Third Quarter | 225,504 | 4.94 | 1,043,497 | 3,956,503 |
| Fourth Quarter | 1,505,688 | 3.91 | 2,549,185 | 2,450,815 |
| **Total** | 2,549,185 | $ 4.71 | 2,549,185 | 2,450,815 |

(1) On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and

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market conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires 24 months after authorized. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. As of December 31, 2018, 2,549,185 shares had been repurchased under the Share Buyback Program. The Company records treasury stock using the cost method.

**Stock Performance Graph**

The stock performance graph and related information is not deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934 and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

The graph and table set forth below compares the cumulative stockholder return from July 13, 2017 (the date our Common Stock began trading on Nasdaq) through December 28, 2018 for our Common Stock, the Nasdaq composite, and a peer group. Measurement points are the last trading day of each month and we assumed that dividends have been reinvested. The selected peer group for the period is comprised of four companies that we believe are our closest reporting issuer competitors: Cognizant Technology Solutions Corp., ExlService Holdings, Inc., Genpact Ltd., and WNS (Holdings). The returns of the component entities of our peer index are weighted according to the market capitalization of each company as of the beginning of each period for which a return is presented. The returns assume

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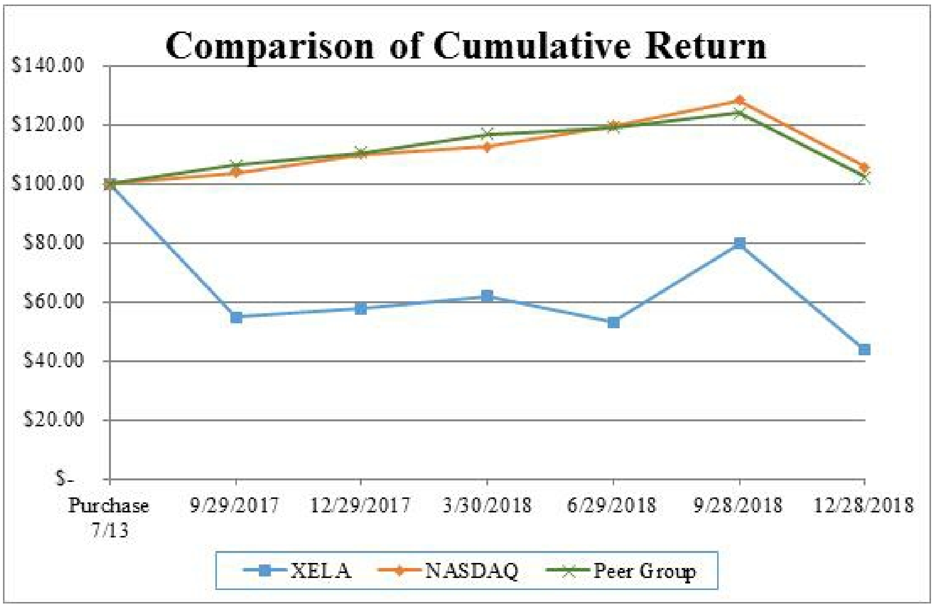
that $100 was invested on July 13, 2017. The performance shown in the graph and table is historical and should not be considered indicative of future price performance.




| | Exela Technologies, Inc. | Nasdaq | Peer Group |
|---|---|---|---|
| Commence Trading as XELA 7/13/2017 (1) | $ 100 | $ 100 | $ 100 |
| 7/31/2017 | 54.81 | 103.53 | 106.32 |
| 8/31/2017 | 57.61 | 110.02 | 110.59 |
| 9/29/2017 | 61.86 | 112.58 | 116.70 |
| 10/31/2017 | 53.13 | 119.70 | 118.92 |
| 11/30/2017 | 79.75 | 128.24 | 123.82 |
| 12/29/2017 | $ 43.51 | $ 105.75 | $ 102.17 |

(1) From March 9, 2015 until the July 12, 2017 closing of the Novitex Business Combination common equity of Quinpario was traded on the Nasdaq under the symbol “QPAC.” QPAC stock had cash redemption rights and other features that ceased upon the filing of a new certificate of incorporation in connection with the closing of the Novitex Business Combination. A vast majority of the holders of QPAC stock exercised their redemption rights. QPAC common equity and XELA’s Common Stock are so different, we believe it would be misleading to present QPAC data from March 9, 2015 until the Novitex Business Combination as if it were XELA stock.

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## ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data" of this Annual Report. Additionally, increases in revenue from 2014 to 2015 of $154.3 million, cost of revenue of $108.3 million, and a decrease in selling, general and administrative expenses of $11.2 million relate to the acquisition of BancTec which occurred on October 31, 2014. Due to this acquisition the company acquired new debt and paid down existing debt in 2014. This resulted in an increase of interest expense of $60.7 million in 2015 and a loss on extinguishment of debt in 2014 of $18.5 million. Finally, in 2014 the company impaired $154.5 million of goodwill and trade names.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| **(in thousands, except share and per share data)** | **2018** | **2017** | **2016** | **2015** | **2014** |
| **Statements of Operations Information:** | | | | | |
| Revenue | $ 1,586,222 | $ 1,152,324 | 789,926 | $ 805,232 | $ 650,918 |
| Cost of revenue (exclusive of depreciation and amortization) | 1,209,874 | 829,143 | 519,121 | 559,846 | 451,539 |
| Selling, general and administrative expenses | 184,651 | 220,955 | 130,437 | 120,691 | 131,864 |
| Depreciation and amortization | 145,485 | 98,890 | 79,639 | 75,408 | 65,227 |
| Impairment of goodwill and other intangible assets | 48,127 | 69,437 | — | — | 154,454 |
| Related party expense | 4,334 | 33,431 | 10,493 | 8,977 | 19,080 |
| **Operating (loss) income** | (6,249) | (99,532) | 50,236 | 40,310 | (171,246) |
| **Other expense (income), net:** | | | | | |
| Interest expense, net | 153,095 | 128,489 | 109,414 | 108,779 | 48,045 |
| Loss on extinguishment of debt | 1,067 | 35,512 | — | — | 18,548 |
| Sundry expense, net | (3,271) | 2,295 | 712 | 3,247 | (2,201) |
| Other income, net | (3,030) | (1,297) | — | — | — |
| **Net loss before income taxes** | (154,110) | (264,531) | (59,890) | (71,716) | (235,638) |
| Income tax (expense) benefit | (8,407) | 60,246 | 11,787 | 26,812 | 38,003 |
| **Net loss** | (162,517) | (204,285) | (48,103) | (44,904) | (197,635) |
| Dividend equivalent on Series A Preferred Stock related to beneficial conversion feature | — | (16,375) | — | — | — |
| Cumulative dividends for Series A Preferred Stock | (3,655) | (2,489) | — | — | — |
| **Net loss attributable to common stockholders** | (166,172) | (223,149) | (48,103) | (44,904) | (197,635) |
| **Loss per share:** | | | | | |
| Basic | (1.09) | (2.08) | (0.75) | (0.70) | (3.1) |
| Diluted | (1.09) | (2.08) | (0.75) | (0.70) | (3.1) |
| **Weighted average number of shares outstanding:** | | | | | |
| Basic | 152,343,823 | 107,068,262 | 64,024,557 | 64,024,557 | 64,024,557 |
| Diluted | 152,343,823 | 107,068,262 | 64,024,557 | 64,024,557 | 64,024,557 |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| **(in thousands)** | **2018** | **2017** | **2016** | **2015** | **2014** |
| **Balance Sheet Data:** | | | | | |
| Cash and cash equivalents | $ 25,615 | $ 39,000 | $ 8,361 | $ 16,619 | $ 21,997 |
| Accounts receivable, net of allowance for doubtful accounts | 270,812 | 229,704 | 138,421 | 145,162 | 157,853 |
| Working capital | (76,821) | (26,049) | (41,404) | 18,162 | 42,583 |
| Total Assets | 1,639,782 | 1,714,838 | 969,486 | 960,048 | 1,119,468 |
| Long-term debt, net of current maturities | 1,306,423 | 1,276,094 | 983,502 | 975,142 | 952,071 |
| Total liabilities | 1,820,788 | 1,724,844 | 1,309,387 | 1,251,537 | 1,273,438 |
| Total stockholders' deficit | (181,006) | (10,006) | (339,901) | (291,489) | (153,970) |

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

***Forward Looking Statements***

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with a review of the other Items included in this Annual Report and our December 31, 2018 Consolidated Financial Statements included elsewhere in this report. Certain statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" may be deemed to be forward-looking statements. See "Special Note Regarding Forward-Looking Statements."*

**Overview**

We are a global provider of transaction processing solutions, enterprise information management, document management and digital business process services. Our technology-enabled solutions allow global organizations to address critical challenges resulting from the massive amounts of data obtained and created through their daily operations. Our solutions address the life cycle of transaction processing and enterprise information management, from enabling payment gateways and data exchanges across multiple systems, to matching inputs against contracts and handling exceptions, to ultimately depositing payments and distributing communications. We believe our process expertise, information technology capabilities and operational insights enable our customers' organizations to more efficiently and effectively execute transactions, make decisions, drive revenue and profitability, and communicate critical information to their employees, customers, partners, and vendors.

**History**

We are a former blank check company that completed our initial public offering on January 22, 2015. In July 2017, Exela Technologies, Inc. ("Exela"), formerly known as Quinpario Acquisition Corp. 2 ("Quinpario"), completed its acquisition of SourceHOV Holdings, Inc. ("SourceHOV") and Novitex Holdings, Inc. ("Novitex") pursuant to the business combination agreement dated February 21, 2017 ("Novitex Business Combination"). In conjunction with the completion of the Novitex Business Combination, Quinpario was renamed Exela Technologies, Inc.

The Novitex Business Combination was accounted for as a reverse merger for which SourceHOV was determined to be the accounting acquirer. Outstanding shares of SourceHOV were converted into our Common Stock, presented as a recapitalization, and the net assets of Quinpario were acquired at historical cost, with no goodwill or other intangible assets recorded. The acquisition of Novitex was treated as a business combination under ASC 805 and was accounted for using the acquisition method. The strategic combination of SourceHOV and Novitex formed Exela, which is one of the largest global providers of information processing solutions based on revenues.

**Basis of Presentation**

This analysis is presented on a consolidated basis. In addition, a description is provided of significant transactions and events that have an impact on the comparability of the results being analyzed. Due to our specific situation, the presented financial information for the years ended December 31, 2018 and 2017 is only partially comparable to the financial information for the year ended December 31, 2017 and 2016. Since SourceHOV was deemed the accounting acquirer in the Novitex Business Combination consummated on July 12, 2017, the presented financial information for the year ended December 31, 2016 reflects the financial information and activities of SourceHOV only. The presented financial information for the year ended December 31, 2017 includes the financial information and activities for SourceHOV for the period January 1, 2017 to December 31, 2017 (365 days) as well as the financial information and activities of Novitex for the period July 13, 2017 to December 31, 2017 (172 days). This lack of comparability needs to be taken into account when reading the discussion and analysis of our results of operations and cash flows. Furthermore, the presented financial information for the year ended December 31, 2017 also contains other costs that are directly associated with the Novitex Business Combination, such as professional fees, to support the our new and complex legal, tax, statutory and reporting requirements following the Novitex Business Combination.

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**Our Segments**

Our three reportable segments are Information & Transaction Processing Solutions ("ITPS"), Healthcare Solutions ("HS"), and Legal & Loss Prevention Services ("LLPS"). These segments are comprised of significant strategic business units that align our TPS and EIM products and services with how we manage our business, approach our key markets and interact with our customers based on their respective industries.

**ITPS:** Our largest segment, ITPS, provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries. Our major customers include 9 of the top 10 U.S. banks, 7 of the top 10 U.S. insurance companies, 5 of the top U.S. telecom companies, over 40 utility companies, over 30 state and county departments, and over 80 government entities. Our ITPS offerings enable companies to increase availability of working capital, reduce turnaround times for application processes, increase regulatory compliance and enhance consumer engagement.

**HS:** HS operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets. We serve the top 5 healthcare insurance payers and over 900 healthcare providers.

**LLPS:** Our LLPS segment provides a broad and active array of support services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters. Our customer base consists of corporate counsel, government attorneys, and law firms.

**Acquisitions**

In April 2018 Exela completed the acquisition of Asterion International Group ("Asterion," the "Asterion Business Combination"), a well-established provider of technology driven business process outsourcing, document management and business process automation across Europe. The acquisition comes with minimal customer overlap and is strategic to expanding Exela's European business. Through the acquisition of Asterion, we expect to leverage brand awareness, strengthen margins, and expand the existing Asterion sales channels.

In July 2017, we completed the Novitex Business Combination. SourceHOV was deemed to be the accounting acquirer, and is a leading provider of platform-based enterprise information management and transaction processing solutions primarily for the healthcare, banking and financial services, commercial, public sector and legal industries. Through the acquisition of SourceHOV and Novitex, we expect to realize revenue synergies, leverage brand awareness, strengthen margins, generate greater free cash flow, expand the existing Novitex sales channels, and increase utilization of the existing workforce. We anticipate opportunities for growth through the ability to leverage additional future services and capabilities.

Prior to the Novitex Business Combination, SourceHOV transformed into an industry-agnostic solution provider and acquired key technology through the acquisition of TransCentra, Inc. ("TransCentra") in September 2016, a provider of integrated outsourced billing, remittance processing and imaging software and consulting services. The addition of TransCentra increased SourceHOV's footprint in the remittance transaction processing and presentment area, expanded its mobile banking offering and enabled significant cross-selling and up-selling opportunities.

**Revenues**

ITPS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed, licensing and maintenance fees for technology sales, and a mix of fixed management fee and transactional revenue for document logistics and location services. HS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed for healthcare payers and providers. LLPS revenues are primarily based on time and materials pricing as well as through transactional services priced on a per item basis.

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**People**

We draw on the business and technical expertise of our talented and diverse global workforce to provide our customers with high-quality services. Our business leaders bring a strong diversity of experience in our industry and a track record of successful performance and execution.

As of December 31, 2018, we had approximately 22,000 employees globally, with 46% located in the United States and the remainder located primarily in Europe, India, the Philippines, Canada, Mexico, and China.

Costs associated with our employees represent the most significant expense for our business. We incurred personnel costs of $687.3 million, $532.3 million, and $373.2 million for the years ended December 31, 2018, 2017 and 2016, respectively. The majority of our personnel costs are variable and are incurred only while we are providing our services.

**Facilities**

We lease and own numerous facilities worldwide with larger concentrations of space in Texas, Michigan, Connecticut, California, India, Mexico, the Philippines, and China. Our owned and leased facilities house general offices, sales offices, service locations, and production facilities.

The size of our active property portfolio as of December 31, 2018 was approximately 4.4 million square feet at an annual operating cost of approximately $38.9 million and comprised of 178 leased properties and 7 owned properties.

We believe that our current facilities are suitable and adequate for our current businesses. Because of the interrelation of our business segments, each of the segments uses substantially all of these properties at least in part.

**Key Performance Indicators**

We use a variety of operational and financial measures to assess our performance. Among the measures considered by our management are the following:

- Revenue by segment;
- EBITDA; and
- Adjusted EBITDA.

***Revenue***

We analyze our revenue by comparing actual monthly revenue to internal projections and prior periods across our operating segments in order to assess performance, identify potential areas for improvement, and determine whether segments are meeting management's expectations.

***EBITDA and Adjusted EBITDA***

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integration costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses. See "—Other Financial Information (Non-GAAP Financial Measures)" for more information and a reconciliation of EBITDA and Adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP.

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**Results of Operations**

**Year Ended December 31, 2018, Compared to Year Ended December 31, 2017**

| | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| Revenue: | | |
| ITPS | $ 1,273,647 | $ 827,110 |
| HS | 228,015 | 233,595 |
| LLPS | 84,560 | 91,619 |
| Total revenue | 1,586,222 | 1,152,324 |
| Cost of revenue (exclusive of depreciation and amortization: | | |
| ITPS | 1,007,301 | 620,719 |
| HS | 151,367 | 152,864 |
| LLPS | 51,206 | 55,560 |
| Total cost of revenues | 1,209,874 | 829,143 |
| Selling, general and administrative expenses | 184,651 | 220,955 |
| Depreciation and amortization | 145,485 | 98,890 |
| Impairment of goodwill and other intangible assets | 48,127 | 69,437 |
| Related party expense | 4,334 | 33,431 |
| Operating loss | (6,249) | (99,532) |
| Interest expense, net | 153,095 | 128,489 |
| Loss on extinguishment of debt | 1,067 | 35,512 |
| Sundry expense (income), net | (3,271) | 2,295 |
| Other (income), net | (3,030) | (1,297) |
| Net loss before income taxes | (154,110) | (264,531) |
| Income tax (expense) benefit | (8,407) | 60,246 |
| Net loss | (162,517) | (204,285) |

***Revenue***

Our revenue increased $433.9 million, or 37.7%, to $1,586.2 million for the year ended December 31, 2018 compared to $1,152.3 million for the year ended December 31, 2017. This increase is primarily related to an increase in our ITPS segment revenues of $446.5 million, which was primarily attributable to the acquisition of Novitex in 2017. The increase was partially offset by a decrease in revenues in the HS segment and LLPS segment of $5.6 million and $7.1 million, respectively. Our ITPS, HS, and LLPS segments constituted 80.3%, 14.4%, and 5.3% of our total revenue, respectively, for the year ended December 31, 2018, compared to 71.8%, 20.3%, and 7.9%, respectively, for the year ended December 31, 2017. The revenue changes by reporting segment was as follows:

ITPS—Revenues increased $446.5 million, or 54.0%, to $1,273.6 million for the year ended December 31, 2018 compared to $827.1 million for the year ended December 31, 2017. The increase was primarily attributable to acquisitions in 2017 and 2018 which contributed $445.0 million of the increase. The remaining increase in revenue was the result of net increases in services provided to ITPS customers.

HS—Revenues decreased $5.6 million, or 2.4%, to $228.0 million for the year ended December 31, 2018 compared to $233.6 million for the year ended December 31, 2017. The decrease was primarily attributable to a decline in volume from a single customer who lost a contract from one of its customers. The decrease was partially offset by ramp up of new businesses

LLPS—Revenues decreased $7.1 million, or 7.7%, to $84.6 million for the year ended December 31, 2018 compared to $91.6 million for the year ended December 31, 2017. The decrease was primarily attributable to lower revenue resulting from the sale of Meridian Consulting Group, LLC of approximately $1.3 million and lower revenue from legal claims administration services of $5.1 million during the year ended December 31, 2018, compared to the year ended December 31, 2017.

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***Cost of Revenue***

Cost of revenue increased $380.7 million, or 45.9%, to $1,209.9 million for the year ended December 31, 2018 compared to $829.1 million for year ended December 31, 2017. The increase was primarily attributable to an increase in the ITPS segment of $386.6 million, offset by decreases in the HS and LLPS segments of $1.5 million and $4.4 million, respectively. The cost of revenue decrease by operating segment was as follows:

ITPS—Cost of revenue increased $386.6 million, or 62.3%, to $1,007.3 million for the year ended December 31, 2018 compared to $620.7 million for year ended December 31, 2017. The increase was primarily attributable to acquisitions in 2018 and 2017, which contributed $387.6 million.

HS—Cost of revenue decreased $1.5 million, or 1.0%, to $151.4 million for the year ended December 31, 2018 compared to $152.9 million for year ended December 31, 2017. The decrease was primarily attributable to a decline in volume from a single customer who lost a contract from one of its customers. Cost of revenue as a percentage of revenue remained relatively flat at 66.4% for the year ended December 31, 2018 compared to 65.4% for the year ended December 31, 2017.

LLPS—Cost of revenue decreased $4.4 million, or 7.8%, to $51.2 million for the year ended December 31, 2018 compared to $55.6 million for year ended December 31, 2017. The decrease was primarily attributable to a decrease in revenues of $1.0 million as a result of the sale of Meridian Consulting Group, LLC and a decrease from the legal claims administration of $2.6 million.

***Selling, General and Administrative Expenses ("SG&A")***

Selling, general, and administrative expenses decreased $36.3 million, or 16.4%, to $184.7 million for the year ended December 31, 2018 compared to $221.0 million for the year ended December 31, 2017. The decrease was primarily attributable to the 2017 expenses for professional fees related to the Novitex Business Combination, which contributed $60.0 million in expense for the year ended December 31, 2017. The decrease is offset by increases attributable to acquisitions in 2018 and 2017 which contributed $13.2 million in expense for the year ended December 31, 2018. The decrease was additionally offset by investments in our strategy to grow revenue and increases in public company and compliance costs.

***Depreciation & Amortization***

Depreciation and amortization expense increased $46.6 million, or 47.1%, to $145.5 million for the year ended December 31, 2018 compared to $98.9 million for the year ended December 31, 2017. The increase was primarily attributable to accelerated amortization of trademarks and trade names resulting in higher amortization expense for the year ended December 31, 2018 compared to the year ended December 31, 2017.

***Impairment of Goodwill and Other Intangible Assets***

Impairment of goodwill and other intangible assets for the year ended December 31, 2018 and 2017 was $48.1 million and $69.4 million. As a result of declining revenue and a change in our branding and marketing strategy, we quantitatively assessed goodwill and other intangible assets as part of our annual impairment test. This assessment resulted in an impairment charge of $44.4 million, including taxes, for goodwill for the LLPS reporting unit, and $3.7 million related to our trade names intangible assets.

***Related Party Expense***

Related party expense decreased $29.1 million, or 87.0%, to $4.3 million for the year ended December 31, 2018 compared to $33.4 million for the year ended December 31, 2017. The decrease was primarily attributable to the $23.0 million of contract termination and advisory fees to HGM during 2017 in connection with the Novitex Business Combination. Additionally, the July 2017 termination of the management agreement with HGM resulted in lower management fees expense of $6.0M for the comparative period.

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***Interest Expense***

Interest expense increased $24.6 million, or 19.2%, to $153.1 million for the year ended December 31, 2018 compared to $128.5 million for the year ended December 31, 2017. The increase was primarily attributable to the issuance of new debt in conjunction with the Novitex Business Combination.

***Loss on Extinguishment of Debt***

Loss on extinguishment of debt for the year ended December 31, 2018 and 2017 was $1.1 million and $35.5 million. The decrease is directly related to the restructuring and Novitex Business Combination in 2017.

***Sundry Expense (income)***

Sundry expense increased by $5.6 million to $(3.3) million for the year ended December 31, 2018 compared to $2.3 million for the year ended December 31, 2017. The increase was mainly attributable to foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

Other income for the year ended December 31, 2018 and 2017 was $2.9 million and $1.3 million. The interest rate swap was not designated as a hedge. As such, changes in the fair value of the derivative of $2.5 million are recorded directly in earnings.

***Income Tax (Expense) Benefit***

Income tax benefit decreased $68.7 million to $(8.4) million for the year ended December 31, 2018 compared to $60.2 million for the year ended December 31, 2017. The December 31, 2018 federal tax expense is primarily due to the impact of the TCJA.

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**Results of Operations**

**Year Ended December 31, 2017, Compared to Year Ended December 31, 2016**

| | Year Ended December 31, | |
|---|---|---|
| | 2017 | 2016 |
| Revenue: | | |
| ITPS | $ 827,110 | $ 439,924 |
| HS | 233,595 | 247,796 |
| LLPS | 91,619 | 102,206 |
| Total revenue | 1,152,324 | 789,926 |
| Cost of revenue (exclusive of depreciation and amortization: | | |
| ITPS | 620,719 | 296,848 |
| HS | 152,864 | 158,800 |
| LLPS | 55,560 | 63,473 |
| Total cost of revenues | 829,143 | 519,121 |
| Selling, general and administrative expenses | 220,955 | 130,437 |
| Depreciation and amortization | 98,890 | 79,639 |
| Impairment of goodwill and other intangible assets | 69,437 | — |
| Related party expense | 33,431 | 10,493 |
| Operating income (loss) | (99,532) | 50,236 |
| Interest expense, net | 128,489 | 109,414 |
| Loss on extinguishment of debt | 35,512 | — |
| Sundry expense (income), net | 2,295 | 712 |
| Other (income), net | (1,297) | — |
| Net loss before income taxes | (264,531) | (59,890) |
| Income tax benefit | 60,246 | 11,787 |
| Net loss | (204,285) | (48,103) |

***Revenue***

Our revenue increased $362.4 million, or 45.9%, to $1,152.3 million for the year ended December 31, 2017 compared to $789.9 million for the year ended December 31, 2016. This increase is primarily related to an increase in our ITPS segment revenues of $387.2 million, which was primarily attributable to the acquisition of TransCentra in 2016 and Novitex in 2017. The increase was partially offset by a decrease in revenues in the HS segment and LLPS segment of $14.2 million and $10.6 million, respectively. Our ITPS, HS, and LLPS segments constituted 71.8%, 20.3%, and 7.9% of our total revenue, respectively, for the year ended December 31, 2017, compared to 55.7%, 31.4%, and 12.9%, respectively, for the year ended December 31, 2016. The revenue changes by reporting segment was as follows:

ITPS—Revenues increased $387.2 million, or 88.0%, to $827.1 million for the year ended December 31, 2017 compared to $439.9 million for the year ended December 31, 2016. The increase was primarily attributable to the acquisition of Novitex, which contributed $292.1 million of the increase. Additionally, the acquisition of TransCentra contributed $94.1 million of the increase. The remaining increase in revenue was the result of net increases in services provided to ITPS customers.

HS—Revenues decreased $14.2 million, or 5.7%, to $233.6 million for the year ended December 31, 2017 compared to $247.8 million for the year ended December 31, 2016. The decrease was primarily attributable to a surge in demand from healthcare provider customers in early 2016 as a result of a change in regulatory coding requirements beginning in the fourth quarter of 2015, resulting in a decline in revenue of $17.9 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. We have since experienced a normalization of demand as healthcare provider customers have reduced outsourcing of the service. The decrease was partially offset by an increase in revenues of $3.7 million from the Payer business during the period.

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LLPS—Revenues decreased $10.6 million, or 10.4%, to $91.6 million for the year ended December 31, 2017 compared to $102.2 million for the year ended December 31, 2016. The decrease was primarily attributable to lower revenue resulting from the sale of Meridian Consulting Group, LLC of approximately $4.4 million, lower revenue from the legal claims administration services of $4.3 million, and lower revenue from labor and employment practice of $1.9 million, during the year ended December 31, 2017, compared to the year ended December 31, 2016.

***Cost of Revenue***

Cost of revenue increased $310.0 million, or 59.7%, to $829.1 million for the year ended December 31, 2017 compared to $519.1 million for year ended December 31, 2016. The increase was primarily attributable to an increase in the ITPS segment of $323.9 million, offset by decreases in the HS and LLPS segments of $5.9 million and $7.9 million, respectively. The cost of revenue decrease by operating segment was as follows:

ITPS—Cost of revenue increased $323.9 million, or 109.1%, to $620.7 million for the year ended December 31, 2017 compared to $296.8 million for year ended December 31, 2016. The increase was primarily attributable to the acquisition of Novitex, which contributed $248.6 million. The acquisition of TransCentra contributed approximately $75.4 million. The increase was partially offset by various cost savings initiatives implemented during the year ended December 31, 2017.

HS—Cost of revenue decreased $5.9 million, or 3.7%, to $152.9 million for the year ended December 31, 2017 compared to $158.8 million for year ended December 31, 2016. This was primarily attributable to normalization of demand for coding during the year ended December 31, 2017 after the surge we experienced in early 2016 as a result of the increased healthcare coding requirements, resulting in a decrease of $4.5 million, along with an associated decrease in revenue. Additionally, there was a decrease of $1.4 million due to various cost savings initiatives from the Payer business during the year ended December 31, 2017.

LLPS—Cost of revenue decreased $7.9 million, or 12.4%, to $55.6 million for the year ended December 31, 2017 compared to $63.5 million for year ended December 31, 2016. The decrease was primarily attributable to a decrease in revenues of $2.7 million as a result of the sale of Meridian Consulting Group, LLC, a decrease from the legal claims administration of $2.6 million, and a decrease of $2.6 million due to lower revenues from labor and employment practice.

***Selling, General and Administrative Expenses ("SG&A")***

Selling, general, and administrative expenses increased $90.6 million, or 69.5%, to $221.0 million for the year ended December 31, 2017 compared to $130.4 million for the year ended December 31, 2016. The increase was primarily attributable to the expenses for professional fees related to the Novitex Business Combination, which contributed $60.0 million in expense for the year ended December 31, 2017. Additionally, the increase is attributable to acquisitions of Novitex and TransCentra, which contributed $25.2 million and $8.3 million, respectively, in expense for the year ended December 31, 2017. The increases were partially offset by a decrease due to cost saving initiatives we implemented, including reduced medical insurance expenditures and administrative personnel costs.

***Depreciation & Amortization***

Depreciation and amortization expense increased $19.3 million, or 24.2%, to $98.9 million for the year ended December 31, 2017 compared to $79.6 million for the year ended December 31, 2016. The increase was primarily attributable to higher balances of customer relationships, developed technology, and outsourced contract costs, resulting in higher amortization expense for the year ended December 31, 2017 compared to the year ended December 31, 2016.

***Impairment of Goodwill and Other Intangible Assets***

Impairment of goodwill and other intangible assets for the year ended December 31, 2017 was $69.4 million. There was no impairment recorded in 2016. As a result of declining revenue and a change in our branding and marketing strategy, we quantitatively assessed goodwill and other intangible assets as part of our annual impairment test. This

assessment resulted in an impairment charge of $30.1 million for goodwill for the LLPS reporting unit, and $39.3 million related to our trade names intangible assets.

***Related Party Expense***

Related party expense increased $22.9 million to $33.4 million for the year ended December 31, 2017 compared to $10.5 million for the year ended December 31, 2016. The increase was primarily attributable to contract termination and advising fees as a result of the Novitex Business Combination.

***Interest Expense***

Interest expense increased $19.1 million, or 17.5%, to $128.5 million for the year ended December 31, 2017 compared to $109.4 million for the year ended December 31, 2016. The increase was primarily attributable to the issuance of new debt in conjunction with the Novitex Business Combination.

***Loss on Extinguishment of Debt***

Loss on extinguishment of debt for the year ended December 31, 2017 was $35.5 million relating to the restructuring and Novitex Business Combination. There was no loss on extinguishment in 2016.

***Sundry Expense***

Sundry expense increased by $1.6 million to $2.3 million for the year ended December 31, 2017 compared to $0.7 million for the year ended December 31, 2016. The increase was mainly attributable to higher foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

Other income for the year ended December 31, 2017 was $1.3 million. There was no other income in 2016 as this item relates solely to the interest rate swap entered into in 2017. The interest rate swap was not designated as a hedge. As such, changes in the fair value of the derivative are recorded directly in earnings.

***Income Tax Benefit***

Income tax benefit increased $48.4 million to $60.2 million for the year ended December 31, 2017 compared to $11.8 million for the year ended December 31, 2016. The increase in the income tax benefit was primarily due to net deferred tax liabilities assumed in the acquisition of Novitex which reduced the valuation allowance.

**Other Financial Information (Non-GAAP Financial Measures)**

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integration costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses.

We present EBITDA and Adjusted EBITDA because we believe they provide useful information regarding the factors and trends affecting our business in addition to measures calculated under GAAP. Additionally, our credit agreement requires us to comply with certain EBITDA related metrics. Refer to "—Liquidity and Capital Resources—Indebtedness."

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***Note Regarding Non-GAAP Financial Measures***

EBITDA and Adjusted EBITDA are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial performance and results of operations as our board of directors and management use EBITDA and Adjusted EBITDA to assess our financial performance, because it allows them to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization) and items outside the control of our management team. Net loss is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some but not all items that affect the most directly comparable GAAP financial measures. These non-GAAP financial measures are not required to be uniformly applied, are not audited and should not be considered in isolation or as substitutes for results prepared in accordance with GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

The following tables present a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the years ended December 31, 2018, 2017, and 2016:

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| Net Loss | $ (162,517) | $ (204,285) | $ (48,103) |
| Taxes | 8,407 | (60,246) | (11,787) |
| Interest expense | 153,095 | 128,489 | 109,414 |
| Depreciation and amortization | 145,485 | 98,890 | 79,639 |
| EBITDA | 144,470 | (37,152) | 129,163 |
| Optimization and restructuring expenses(1) | 68,165 | 42,524 | 7,559 |
| Transaction and integration costs(2) | 4,121 | 88,935 | 18,848 |
| Non-cash equity compensation(3) | 7,647 | 6,743 | 7,085 |
| Other charges including non-cash(4) | 12,292 | 518 | 471 |
| Loss (gain) on sale of assets(5) | (867) | 40 | 2,274 |
| Loss on business disposals (6) | 1,363 | (588) | — |
| Management, board fees and expenses | — | 4,153 | 7,837 |
| Loss on extinguishment of debt | 1,067 | 35,512 | — |
| Gain on derivative instruments (7) | (2,540) | (1,297) | — |
| Impairment of goodwill and other intangible assets | 48,127 | 69,437 | — |
| Adjusted EBITDA | 283,845 | 208,825 | 173,237 |

(1) Adjustment represents net salary and benefits associated with positions that are part of the on-going savings initiatives including severance, retention bonuses, and related fees and expenses. Additionally, the adjustment includes charges incurred by us to terminate existing lease and vendor contracts as part of the on-going savings initiatives.

(2) Represents costs incurred related to transactions for completed or contemplated transactions during the period.

(3) Represents the non-cash charges related to restricted stock units and options granted by Ex-Sigma, LLC and Exela to our employees that vested during the year.

(4) Represents fair value adjustments to deferred revenue and deferred rent accounts established as part of purchase accounting and other non-cash charges. Other charges include a portion of the Company’s transition expenses in 2018.

(5) Represents a loss recognized on the disposal of property, plant, and equipment and other assets.

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(6) Represents a gain recognized on the disposal of Meridian Consulting Group, LLC.

(7) Represents the impact of changes in the fair value of an interest rate swap entered into during the fourth quarter of 2017.

**Year Ended December 31, 2018 compared to the Year Ended December 31, 2017**

***EBITDA and Adjusted EBITDA***

EBITDA was $144.5 million for the year ended December 31, 2018 compared to $(37.2) million for the year ended December 31, 2017. Adjusted EBITDA was $283.8 million for the year ended December 31, 2018 compared to $208.8 million for the year ended December 31, 2017. The increase in EBITDA was primarily due to a lower net loss amount for the year ended December 31, 2018 resulting from an increase in revenue, decrease in selling, general and administrative expenses, decrease in related party expense, and decrease in loss on extinguishment of debt compared to the year ended December 31, 2017. The increase in Adjusted EBITDA was primarily due to lower transaction and integration costs for the year ended December 31, 2018 compared to the year ended December 31, 2017, along with lower impairment charges incurred in 2018 compared to 2017.

**Year Ended December 31, 2017 compared to the Year Ended December 31, 2016**

***EBITDA and Adjusted EBITDA***

EBITDA was $(37.2) million for the year ended December 31, 2017 compared to $129.2 million for the year ended December 31, 2016. Adjusted EBITDA was $208.8 million for the year ended December 31, 2017 compared to $173.2 million for the year ended December 31, 2016. The decrease in EBITDA was primarily due to a higher net loss amount for the year ended December 31, 2017 resulting from an increase in selling, general and administrative expenses, related party expense, and loss on extinguishment of debt compared to the year ended December 31, 2016. The increase in Adjusted EBITDA was primarily due higher overall gross profit for the year ended December 31, 2017 compared to the year ended December 31, 2016, along with lower recurring expenses as part of on-going operations.

**Liquidity and Capital Resources**

**Overview**

Our primary source of liquidity is principally cash generated from operating activities supplemented as necessary on a short-term basis by borrowings against our senior secured revolving credit facility. We believe our current level of cash and short term financing capabilities along with future cash flows from operations are sufficient to meet the needs of the business.

We currently expect to spend approximately $35.0 to $40.0 million on total capital expenditures over the next twelve months. We believe that our operating cash flow and available borrowings under our credit facility will be sufficient to fund our operations for at least the next twelve months.

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the "Repricing"). The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

At December 31, 2018, cash and cash equivalents totaled $43.9 million including restricted cash, and we had availability of $79.4 million under our senior secured revolving credit facility.

In connection with the Novitex Business Combination, we acquired debt facilities and issued notes totaling $1.4 billion. Proceeds from the acquired debt were used to refinance the existing debt of SourceHOV, settle the

outstanding debt facilities for Novitex, and pay fees and expenses incurred in connection with the Novitex Business Combination. We entered into a Credit Agreement with a $350.0 million senior secured term loan, a $100.0 million senior secured revolving facility, and $1.0 billion in First Priority Senior Secured Notes (the "Senior Secured Notes"). The $100.0 million revolver remained undrawn (net of letters of credit) at the time of compilation of this report.

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires 24 months after authorization. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. As of December 31, 2018, 2,549,185 shares had been repurchased under the Share Buyback Program.

**Cash Flows**

The following table summarizes our cash flows for the periods indicated:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Cash flow from operating activities | $ 30,457 | $ 23,455 | $ 72,147 |
| Cash flow used in investing activities | (66,304) | (452,374) | (31,602) |
| Cash flows (used in) provided by financing activities | (1,910) | 475,727 | (43,255) |
| Subtotal | (37,757) | 46,808 | (2,710) |
| Effect of exchange rates on cash | 122 | 429 | (2,059) |
| Net increase/(decrease) in cash | (37,635) | 47,237 | (4,769) |

**Analysis of Cash Flow Changes between the years ended December 31, 2018, December 31, 2017, and December 31, 2016**

Operating Activities—Net cash provided by operating activities was $30.5 million for the year ended December 31, 2018, compared to $23.5 million for the year ended December 31, 2017. The increase of $7.0 million in cash flow from operating activities was primarily driven by the lower net loss as compared to 2017 due to an improved business profile as well as lower transaction costs associated with the Novitex Business combination..

Net cash provided by operating activities was $23.5 million for the year ended December 31, 2017, compared to $72.1 million for the year ended December 31, 2016. The decrease of $48.6 million in cash flow from operating activities was primarily due to decreases in operating results, greater cash outflows from accounts payable and accrued liabilities due to timing of payments, and lower cash inflows from accounts receivable due to the timing of collections.

Investing Activities—Net cash used in investing activities was $66.3 million for the year ended December 31, 2018, compared to $452.4 million for the year ended December 31, 2017. The decrease of $386.1 million in cash used in investing activities was primarily due to a decrease in cash paid related to the Novitex Business Combination offset by cash spent on 2018 acquisitions.

Net cash used in investing activities was $452.4 million for the year ended December 31, 2017, compared to $31.6 million for the year ended December 31, 2016. The increase of $420.8 million in cash used in investing activities was primarily due to cash paid in acquisition, partially offset by proceeds received from the sale of Meridian Consulting Group, LLC during the year ended December 31, 2017, as well as higher additions to intangible assets during the year ended December 31, 2016.

Financing Activities—Net cash used in financing activities was $1.9 million for the year ended December 31, 2018, compared to cash provided by financing activities of $475.7 million for the year ended December 31, 2017. The

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decrease of $477.6 million in cash provided by financing activities was primarily due to the 2017 retirement and proceeds from the credit facilities and lower stock issuance proceeds and shareholder contributions in 2017 versus 2018. The decrease was offset by lower debt extinguishment costs and principal payments on long-term obligations.

Net cash used in financing activities was $475.7 million for the year ended December 31, 2017, compared to net cash provided by financing activities of $43.3 million for the year ended December 31, 2016. The increase of $519.0 million in cash provided by financing activities was primarily due to proceeds from issuance of stock and cash received from Quinpario in the amount of $231.4 million, as well as proceeds from a new credit facility of $1,310.5 million during the year ended December 31, 2017, which was partially offset by the retirement of the previous credit facilities of $1,055.7 million.

**Indebtedness**

As noted, in connection with the Novitex Business Combination on July 12, 2017, we acquired debt facilities and issued notes totaling $1.4 billion. Proceeds from the indebtedness were used to pay off credit facilities existing immediately before the Novitex Business Combination.

*Senior Credit Facilities*

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the “Credit Agreement”) providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, (i) a $350.0 million senior secured term loan maturing July 12, 2023 with an original issue discount of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022, none of which is currently drawn. The Credit Agreement provides for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company’s option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity. As of December 31, 2018 and 2017 the interest rate applicable for the first lien senior secured term loan was 9.378% and 9.064%.

*Senior Secured Notes*

Upon the closing of the Novitex Business Combination on July 12, 2017, the Company issued $1.0 billion in aggregate principal amount of 10.0% First Priority Senior Secured Notes due 2023 (the “Notes”). The Notes are guaranteed by certain subsidiaries of the Company. The Notes bear interest at a rate of 10.0% per year. The Company pays interest on the Notes on January 15 and July 15 of each year, commencing on January 15, 2018. The Notes will mature on July 15, 2023.

*Term Loan Repricing*

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the “Repricing”). The Repricing was accomplished pursuant to a First Amendment to First Lien Credit Agreement (the “First Amendment”), dated as of July 13, 2018, by and among Exela Intermediate Holdings LLC, the Company, each “Subsidiary Loan Party” listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto, whereby the Company borrowed $343.4 million of refinancing term loans (the “Repricing Term Loans”) to refinance the Company’s existing senior secured term loans.

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The Repricing Term Loans will bear interest at a rate per annum of, at the Company's option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin of 6.50% for LIBOR loans and 5.50% for base rate loans. The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement, by and among Exela Intermediate Holdings, LLC, the Company, Royal Bank of Canada, as administrative agent and collateral agent, and each of the lenders party thereto. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

*Incremental Term Loan*

On July 13, 2018, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the "Incremental Term Loans") under the First Amendment. The proceeds of the Incremental Term Loans may be used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment. The interest rates applicable to the Incremental Term Loans are the same as those for the Repricing Term Loans.

The Company may voluntarily repay the Repricing Term Loans and the Incremental Term Loans (collectively, the "Term Loans") at any time, without prepayment premium or penalty, except in connection with a repricing event as described in the following sentence, subject to customary "breakage" costs with respect to LIBOR rate loans. Any refinancing of the Term Loans through the issuance of certain debt or any repricing amendment, in either case, that constitutes a "repricing event" applicable to the Term Loans resulting in a lower yield occurring at any time during the first six months after July 13, 2018 will be accompanied by a 1.00% prepayment premium or fee, as applicable.

*Letters of Credit*

As of December 31, 2018 and December 31, 2017, we had outstanding irrevocable letters of credit totaling approximately $20.6 million and $20.9 million, respectively, under the revolving credit facility.

**Potential Future Transactions**

We may, from time to time explore and evaluate possible strategic transactions, which may include joint ventures, as well as business combinations or the acquisition or disposition of assets. In order to pursue certain of these opportunities, additional funds will likely be required. Subject to applicable contractual restrictions, to obtain such financing, we may seek to use cash on hand, borrowings under our revolving credit facility, or we may seek to raise additional debt or equity financing through private placements or through underwritten offerings. There can be no assurance that we will enter into additional strategic transactions or alliances, nor do we know if we will be able to obtain the necessary financing for transactions that require additional funds on favorable terms, if at all. In addition, pursuant to the Registration Rights Agreement that we entered into in connection with the closing of the Novitex Business Combination, certain of our stockholders have the right to demand underwritten offerings of our Common Stock. We are exploring, and may from time to time in the future explore, with certain of those stockholders the possibility of an underwritten public offering of our Common Stock held by those stockholders. There can be no assurance as to whether or when an offering may be commenced or completed, or as to the actual size or terms of the offering.

**Critical Accounting Policies and Estimates**

The preparation of financial statements requires the use of judgments and estimates. Our critical accounting policies are described below to provide a better understanding of how we develop our assumptions and judgments about future events and related estimations and how they can impact our financial statements. A critical accounting estimate is one that requires subjective or complex estimates and assessments, and is fundamental to our results of operations. We base our estimates on historical experience and on various other assumptions we believe to be reasonable according to the current facts and circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We believe the current assumptions, judgments

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and estimates used to determine amounts reflected in our consolidated financial statements are appropriate; however, actual results may differ under different conditions. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included in this document.

*Goodwill and other intangible assets:* Goodwill and other intangible assets are initially recorded at their fair values. Goodwill represents the excess of the purchase price of acquisitions over the fair value of the net assets acquired. Our goodwill at December 31, 2018 and December 31, 2017 was $708.3 million and $747.3 million, respectively. Goodwill and other intangible assets not subject to amortization are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Intangible assets with finite useful lives are amortized either on a straight-line basis over the asset's estimated useful life or on a basis that reflects the pattern in which the economic benefits of the intangible assets are realized.

*Outsourced contract costs:* In connection with services arrangements, we incur and capitalize costs to originate long-term contracts. Certain initial direct costs of an arrangement are capitalized and amortized over the contractual service period of the arrangement to cost of services. We regularly review costs to determine appropriateness for deferral in accordance with the relevant accounting guidance. Key estimates and assumptions that we must make include projecting future cash flows in order to assess the recoverability of deferred costs. To assess recoverability, cash flows are projected over the remaining life and compared to the carrying amount of contract related assets, including the unamortized deferred cost balance. Such estimates require judgment and assumptions, which are based upon the professional knowledge and experience of our personnel. A significant change in an estimate or assumption on one or more contracts could have a material effect on our results of operations.

*Impairment of goodwill, long-lived and other intangible assets:* Long-lived assets, such as property and equipment and finite-lived intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Recoverability is measured by a comparison of their carrying amount to the estimated undiscounted cash flows to be generated by those assets. If the undiscounted cash flows are less than the carrying amount, we record impairment losses for the excess of the carrying value over the estimated fair value. Fair value is determined, in part, by the estimated cash flows to be generated by those assets. Our cash flow estimates are based upon, among other things, historical results adjusted to reflect our best estimate of future market rates, and operating performance. Development of future cash flows also requires us to make assumptions and to apply judgment, including timing of future expected cash flows, using the appropriate discount rates, and determining salvage values. The estimate of fair value represents our best estimates of these factors, and is subject to variability. Assets are generally grouped at the lowest level of identifiable cash flows, which is the reporting unit level for us. Changes to our key assumptions related to future performance and other economic factors could adversely affect our impairment valuation.

We test our indefinite lived intangible assets on October 1st of each year, or more frequently if events or changes in circumstances indicate that the assets may be impaired. When performing the impairment test, we have the option of performing a qualitative or quantitative assessment to determine if an impairment has occurred. A quantitative assessment requires comparison of fair value of the asset to its carrying value. We utilize the Income Approach, specifically the Relief-from-Royalty method, which has the basic tenet that a user of that intangible asset would have to make a stream of payments to the owner of the asset in return for the rights to use that asset. By acquiring the intangible asset, the user avoids these payments. Application of the indefinite lived intangible asset impairment test requires judgment, including determination of royalty rates, and projecting revenue attributable to the assets in order to determine fair value. On October 1, 2017, we elected to bypass the qualitative assessment and perform a quantitative assessment of the carrying value of our indefinite-lived intangible assets as of our annual impairment testing date. As a result of this analysis, $6.3 million of impairment was recorded due to the decline in the valuation of trade names. Additionally, later during the fourth quarter of 2017, due to a change in our anticipated marketing strategy for 2018 and expected use of certain names, we performed another quantitative impairment test as of December 31, 2017. As a result of this analysis, $33.0 million of additional impairment was recorded due to the decline in the valuation of trade names. As part of the analysis, we also reconsidered the expected useful lives of certain indefinite-lived trade names. We reduced the estimated useful lives of those trade names to one year, and will commence amortization over the remaining useful life. On October 1, 2018, we performed our annual impairment test and the carrying value of one trade name exceeded the calculated fair value. As such, an impairment charge of $3.7 million was recorded as of December 31, 2018.

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We conduct our annual goodwill impairment tests on October 1st of each year, or more frequently if indicators of impairment exist. When performing the annual impairment test, we have the option of performing a qualitative or quantitative assessment to determine if an impairment has occurred. If a qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we would be required to perform a quantitative impairment test for goodwill. A quantitative test requires comparison of fair value of the reporting unit to its carrying value, including goodwill. We use a combination of the Guideline Public Company Method of the Market Approach and the Discounted Cash Flow Method of the Income Approach to determine the reporting unit fair value. For the Guideline Public Company Method, our annual impairment test utilizes discounted cash flow projections using weighted average cost of capital calculations based on capital structures of publicly traded peer companies. For the Discounted Cash Flow Method, our annual impairment test utilizes discounted cash flow projections using our weighted average cost of capital calculation. If the fair value of goodwill at the reporting unit level is less than its carrying value, an impairment loss is recorded for the amount by which a reporting unit's carrying amount exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. During the year ended December 31, 2018, due to a decline in revenues and operations in our LLPS reporting unit, we elected to bypass the qualitative assessment and perform a quantitative impairment assessment of the carrying value of our goodwill. As a result of the analysis, we recorded an impairment charge of $44.4 million, including taxes, for the LLPS reporting unit's goodwill and trade names.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, allocation of assets and liabilities to reporting units, and determination of fair value. The determination of reporting unit fair value is sensitive to the amount of EBITDA generated by us, as well as the EBITDA multiple used in the calculation. Unanticipated changes, including immaterial revisions, to these assumptions could result in a provision for impairment in a future period. Given the nature of these evaluations and their application to specific assets and time frames, it is not possible to reasonably quantify the impact of changes in these assumptions.

*Revenue:* We account for revenue in accordance with ASC 606. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. All of our material sources of revenue are derived from contracts with customers, primarily relating to the provision of business and transaction processing services within each of our segments. We do not have any significant extended payment terms, as payment is received shortly after goods are delivered or services are provided. *Refer to Note 2—Basis of Presentation and Summary of Significant Accounting Policies* for additional information regarding our revenue recognition policy.

If a contract involves the provision of a single element, revenue is generally recognized when the product or service is provided and the amount earned is not contingent upon any future event. Revenue from time and materials arrangements is recognized as the services are performed.

*Multiple element arrangements*

We also enter into multiple element arrangements involving various combinations. The deliverables within these arrangements are evaluated at contract inception to determine whether they represent separate units of accounting, and if so, contract consideration is allocated to each deliverable based on relative selling price. With respect to arrangements including tangible products containing both software and non-software components that function together to deliver the product's essential functionality, the relative selling price is determined using vendor specific objective evidence ("VSOE") of fair value, third-party evidence or best estimate of selling price. For our multiple element arrangements that are comprised solely of software and software elements, revenue is allocated to the various elements based on VSOE of fair value and the residual method to allocate the arrangement consideration. Revenue is then recognized in accordance with the appropriate revenue recognition guidance applicable to the respective elements.

If the multiple element arrangements criteria are not met, the arrangement is accounted for as one unit of accounting which would result in revenue being recognized on a straight-line basis over the period of delivery or being deferred until the earlier of when such criteria are met or when the last element is delivered.

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*Income Taxes:* We account for income taxes by using the asset and liability method. We account for income taxes regarding uncertain tax positions and recognize interest and penalties related to uncertain tax positions in income tax benefit/ (expense) in the consolidated statements of operations.

The Tax Cuts and Jobs Act ("TCJA") was signed by the President of the United States and enacted into law on December 22, 2017. The TCJA significantly changes U.S. tax law by reducing the U.S. corporate income tax rate to 21% from 35%, adopting a territorial tax regime, creating new taxes on certain foreign sourced earnings and imposing a one-time transition tax on the undistributed earnings of certain non-U.S. subsidiaries.

Accounting Standards Codification Topic 740, Income Taxes ("ASC 740") requires companies to account for the tax effects of changes in income tax rates and laws in the period in which legislation is enacted (December 22, 2017). ASC 740 does not specifically address accounting and disclosure guidance in connection with the income tax effects of the TCJA. Consequently, on December 22, 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), to address the application of ASC 740 in the reporting period that includes the date the TCJA was enacted. SAB 118 allows companies a reasonable period of time to complete the accounting for the income tax effects of the TCJA.

Deferred income taxes are recognized on the tax consequences of temporary differences by applying enacted statutory tax rates applicable in future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, as determined under tax laws and rates. A valuation allowance is provided when it is more likely than not that all or some portion of the deferred tax assets will not be realized. Due to numerous ownership changes, we are subject to limitations on existing net operating losses under Section 382 of the Internal Revenue Code (the Code). In the event we determine that we would be able to realize deferred tax assets that have valuation allowances established, an adjustment to the net deferred tax assets would be recognized as a component of income tax expense through continuing operations.

We engage in transactions (such as acquisitions) in which the tax consequences may be subject to uncertainty and examination by the varying taxing authorities. Significant judgment is required by us in assessing and estimating the tax consequences of these transactions. While our tax returns are prepared and based on our interpretation of tax laws and regulations, in the normal course of business the tax returns are subject to examination by the various taxing authorities. Such examinations may result in future assessments of additional tax, interest and penalties. For purposes of our income tax provision, a tax benefit is not recognized if the tax position is not more likely than not to be sustained based solely on its technical merits. Considerable judgment is involved in determining which tax positions are more likely than not to be sustained.

*Business Combinations:* We allocate the total cost of an acquisition to the underlying assets based on their respective estimated fair values. Determination of fair values involves significant estimates and assumptions about highly subjective variables, including future cash flows, discount rates, and asset lives. The estimates of the fair values of assets and liabilities acquired are based upon assumptions believed to be reasonable and, when appropriate, include assistance from independent third-party valuation firms.

Because we are primarily a services business, our acquisitions typically result in significant amounts of goodwill and other intangible assets. Fair value estimates and calculations for these acquisitions will affect the amount of amortization expense, or possible impairment related charges recognized in future periods. We base our fair value estimates on assumptions we believe are reasonable, but recognize that the assumptions are inherently uncertain.

**JOBS Act**

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, relax certain reporting requirements for qualifying public companies. We had previously elected to delay the adoption of new or revised accounting standards as an emerging growth company; however, we no longer qualify as an emerging growth company and will be required to comply with new or revised accounting standards using public company effective dates.

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**Recently Adopted and Recently Issued Accounting Pronouncements**

See Note 2 to the consolidated financial statements.

**Internal Controls and Procedures**

As a publicly traded company, we are required to comply with the SEC's rules implementing Section 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting. However, as we completed the Novitex Business Combination on July 12, 2017, it was not possible for us to conduct an assessment of the accounting acquirer's internal control over financial reporting in the period between the consummation date of the reverse acquisition and the date of management's assessment of internal control over financial reporting required by Item 308(a) of Regulation S-K for the year ended December 31, 2017. For the year ended December 31, 2018 see item 9A. Controls and Procedures for management's report on the effectiveness of internal controls.

**Off Balance Sheet Arrangements**

At December 31, 2018, we had no material off balance sheet arrangements, except for operating leases. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements. Our operating leases are composed of various office and industrial buildings, machinery, equipment, and vehicles. As of December 31, 2018 and 2017, our total future minimum lease payments under non-cancelable operating leases were $150.3 million and $129.6 million.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

**Quantitative and Qualitative Disclosure About Market Risk**

**Interest Rate Risk**

At December 31, 2018, we had $1,337.8 million of debt outstanding, with a weighted average interest rate of 9.589%. Interest is calculated under the terms of our credit agreement based on the greatest of certain specified base rates plus an applicable margin that varies based on certain factors. Assuming no change in the amount outstanding, the impact on interest expense of a 1% increase or decrease in the assumed weighted average interest rate would be approximately 13.3 million per year. In order to mitigate interest rate fluctuations with respect to term loan borrowings under the Credit Agreement, in November 2017, we entered into a three year, one-month LIBOR interest rate swap contract with a notional amount of $347.8 million, which is the remaining principal balance of the term loan. The swap contract will swap out the floating rate interest risk related to the LIBOR with a fixed interest rate of 1.9275% and was effective on January 12, 2018.

The interest rate swap, which is used to manage our exposure to interest rate movements and other identified risks, was not designated as a hedge. As such, changes in the fair value of the derivative are recorded directly in earnings and were equal to $2.5 million for the year ended December 31, 2018.

**Foreign Currency Risk**

We are exposed to foreign currency risks that arise from normal business operations. These risks include transaction gains and losses associated with intercompany loans with foreign subsidiaries and transactions denominated in currencies other than a location's functional currency. Contracts are denominated in currencies of major industrial countries.

**Market Risk**

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. We do not use derivatives for trading purposes, to generate income or to engage in speculative activity.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The following financial statements and schedules are included herein:

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**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors
Exela Technologies, Inc.:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Exela Technologies, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive loss, stockholders' deficit, and cash flows for each of the years in the three-year period ended December 31, 2018 (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 19, 2019 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

*Change in Accounting Principle*

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for revenue recognition in 2018 due to the adoption of Accounting Standard Update no. 2014-09, *Revenue from Contracts with Customers (ASC 606).*

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2013.

Dallas, Texas
March 19, 2019

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Exela Technologies, Inc.:

*Opinion on Internal Control Over Financial Reporting*

We have audited Exela Technologies, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weaknesses, described below, on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013 Framework").

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2018, the related statements of operations, comprehensive loss, stockholders' deficit, and cash flows for the year then ended, and the related notes (collectively, the consolidated financial statements), and our report dated March 19, 2019 expressed an unqualified opinion on those consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

- Ineffective control environment related to:
  - insufficient internal resources with appropriate knowledge and expertise
  - ineffective supervision of control implementation activities provided by third party contractors; and
  - ineffective policies and procedures to hold people accountable for their financial reporting and related internal control responsibilities and insufficient training of personnel on the COSO 2013 Framework
- Ineffective risk assessment process related to:
  - failure to identify and evaluate risks of misstatement over certain financial reporting processes; and
  - failure to determine modifications necessary in certain financial reporting processes and related control activities due to changes in the application of U.S. generally accepted accounting principles and in connection with a business acquisition.
- Ineffective information and communications controls over the reliability and timeliness of information available to financial reporting personnel.
- Ineffective monitoring activities related to the five COSO 2013 Framework components and underlying principles and the timely remediation of existing control deficiencies.
- Ineffective written policies and procedures and documentation to demonstrate the consistent and timely operation of the controls.
- Ineffective general information technology controls and automated controls:
  - Ineffective complementary entity user controls and ineffective certain general information technology controls related to payroll, revenue and procurement transactions processed by certain service organizations at some or all components;
  - Ineffective general information technology controls over IT applications supporting procurement and leasing financial reporting processes at certain components; and

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- Ineffective automated process-level controls and manual controls that are dependent upon the information derived from those affected IT systems
- Ineffective control activities related to the following consolidated accounts:
  - the completeness, existence and accuracy of the financial statement close and reporting process and financial statement disclosures;
  - the completeness, existence and accuracy of revenue and deferred revenue transactions, including customer deposits and accounts receivable;
  - the completeness, existence and accuracy of the procurement of goods and services and invoice processing and the completeness and accuracy and presentation of accounts payable and accrued liabilities and operating expenses;
  - the completeness, existence, accuracy and presentation of payroll and related expenses and accrued compensation and benefits;
  - the completeness, existence and accuracy of lease expense, capital lease obligations and the presentation of operating and capital lease disclosures; and
  - the completeness and accuracy of outsource contract cost additions in the current year.
- Ineffective control activities related to:
  - the completeness, existence and accuracy of fixed assets additions and disposals and related depreciation at the Novitex component; and
  - the completeness and accuracy of restricted cash and obligation for claim payments and the presentation of restricted cash at the Rust component.

The material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2018 consolidated financial statements, and this report does not affect our report on those consolidated financial statements.

The Company acquired Asterion International Group during 2018, and management excluded from its assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2018, Asterion International Group’s internal control over financial reporting associated with total assets of $18 million and total revenues of $59.7 million included in the consolidated financial statements of the Company as of and for the year ended December 31, 2018. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Asterion International Group.

*Basis for Opinion*

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting in Item 9A. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

*Definition and Limitations of Internal Control Over Financial Reporting*

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A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Dallas, Texas
March 19, 2019

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Balance Sheets**
**For the years ended December 31, 2018 and 2017**
**(in thousands of United States dollars except share and per share amounts)**

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 25,615 | $ 39,000 |
| Restricted cash | 18,239 | 42,489 |
| Accounts receivable, net of allowance for doubtful accounts of $4,359 and $3,725 respectively | 270,812 | 229,704 |
| Inventories, net | 16,220 | 11,922 |
| Prepaid expenses and other current assets | 25,015 | 24,596 |
| **Total current assets** | **355,901** | **347,711** |
| Property, plant and equipment, net | 132,986 | 132,908 |
| Goodwill | 708,258 | 747,325 |
| Intangible assets, net | 407,021 | 464,984 |
| Deferred income tax assets | 16,225 | 9,019 |
| Other noncurrent assets | 19,391 | 12,891 |
| **Total assets** | **$ 1,639,782** | **$ 1,714,838** |
| **Liabilities and Stockholders' Equity (Deficit)** | | |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable | $ 99,853 | $ 81,263 |
| Related party payables | 7,735 | 14,445 |
| Income tax payable | 1,996 | 3,612 |
| Accrued liabilities | 66,008 | 49,383 |
| Accrued compensation and benefits | 54,583 | 46,925 |
| Accrued interest | 49,071 | 55,102 |
| Customer deposits | 34,235 | 31,656 |
| Deferred revenue | 16,504 | 12,709 |
| Obligation for claim payment | 56,002 | 42,489 |
| Current portion of capital lease obligations | 17,498 | 15,611 |
| Current portion of long-term debt | 29,237 | 20,565 |
| **Total current liabilities** | **432,722** | **373,760** |
| Long-term debt, net of current maturities | 1,306,423 | 1,276,094 |
| Capital lease obligations, net of current maturities | 26,738 | 25,958 |
| Pension liability | 25,269 | 25,496 |
| Deferred income tax liabilities | 11,212 | 5,362 |
| Long-term income tax liability | 3,024 | 3,470 |
| Other long-term liabilities | 15,400 | 14,704 |
| **Total liabilities** | **1,820,788** | **1,724,844** |
| Commitment and Contingencies (Note 12) | | |
| **Stockholders' equity (deficit)** | | |
| Common stock, par value of $0.0001 per share; 1,600,000,000 shares authorized; 152,692,140 shares issued and 150,142,955 shares outstanding at December 31, 2018 and 150,578,451 shares issued and 150,529,151 outstanding at December 31, 2017 | 15 | 15 |
| Preferred stock, par value of $0.0001 per share; 20,000,000 shares authorized; 4,569,233 shares issued and outstanding at December 31, 2018 and 6,194,233 shares issued or outstanding at December 31, 2017 | 1 | 1 |
| Additional paid in capital | 482,018 | 482,018 |
| Less: common stock held in treasury, at cost; 2,549,185 shares at December 31, 2018 and 49,300 shares at December 31, 2017 | (10,342) | (249) |
| Equity-based compensation | 41,731 | 34,085 |
| Accumulated deficit | (678,563) | (514,628) |
| Accumulated other comprehensive loss: | | |
| Foreign currency translation adjustment | (6,565) | (194) |
| Unrealized pension actuarial losses, net of tax | (9,301) | (11,054) |
| Total accumulated other comprehensive loss | (15,866) | (11,248) |
| **Total stockholders' deficit** | **(181,006)** | **(10,006)** |
| **Total liabilities and stockholders' deficit** | **$ 1,639,782** | **$ 1,714,838** |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statement of Operations**
**For the years ended December 31, 2018, 2017 and 2016**
**(in thousands of United States dollars except share and per share amounts)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Revenue | $ 1,586,222 | $ 1,152,324 | $ 789,926 |
| Cost of revenue (exclusive of depreciation and amortization) | 1,209,874 | 829,143 | 519,121 |
| Selling, general and administrative expenses | 184,651 | 220,955 | 130,437 |
| Depreciation and amortization | 145,485 | 98,890 | 79,639 |
| Impairment of goodwill and other intangible assets | 48,127 | 69,437 | — |
| Related party expense | 4,334 | 33,431 | 10,493 |
| **Operating (loss) income** | **(6,249)** | **(99,532)** | **50,236** |
| **Other expense (income), net:** | | | |
| Interest expense, net | 153,095 | 128,489 | 109,414 |
| Loss on extinguishment of debt | 1,067 | 35,512 | — |
| Sundry expense (income), net | (3,271) | 2,295 | 712 |
| Other income, net | (3,030) | (1,297) | — |
| **Net loss before income taxes** | **(154,110)** | **(264,531)** | **(59,890)** |
| Income tax (expense) benefit | (8,407) | 60,246 | 11,787 |
| **Net loss** | **$ (162,517)** | **$ (204,285)** | **$ (48,103)** |
| Dividend equivalent on Series A Preferred Stock related to beneficial conversion feature | — | (16,375) | — |
| Cumulative dividends for Series A Preferred Stock | (3,655) | (2,489) | — |
| **Net loss attributable to common stockholders** | **$ (166,172)** | **$ (223,149)** | **$ (48,103)** |
| **Loss per share:** | | | |
| Basic and diluted | $ (1.09) | $ (2.08) | $ (0.75) |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Comprehensive Loss**
**For the years ended December 31, 2018, 2017 and 2016**
**(in thousands of United States dollars)**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **Net Loss** | **$ (162,517)** | **$ (204,285)** | **$ (48,103)** |
| **Other comprehensive income (loss), net of tax** | | | |
| Foreign currency translation adjustments | (6,371) | 3,353 | (132) |
| Unrealized pension actuarial gains (losses), net of tax | 1,753 | 1,285 | (7,263) |
| **Total other comprehensive loss, net of tax** | **$ (167,135)** | **$ (199,647)** | **$ (55,498)** |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Stockholders' Deficit**
**December 31, 2016**
**(in thousands of United States dollars except share and per share amounts)**

| | Common Stock | | Preferred Stock | | Treasury Stock | | Additional Paid in Capital | Equity-Based Compensation | Accumulated Other Comprehensive Loss: Foreign Currency Translation Adjustment | Accumulated Other Comprehensive Loss: Unrealized Pension Actuarial Losses, net of tax | Accumulated Deficit | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | | | |
| **Balances at January 1, 2016** | **64,024,557** | **$ 6** | **—** | **$ —** | **—** | **$ —** | **$ (57,395)** | **$ 20,256** | **$ (3,415)** | **$ (5,076)** | **$ (245,865)** | **$ (291,489)** |
| Net loss January 1 to December 31, 2016 | — | — | — | — | — | — | — | — | — | — | (48,103) | (48,103) |
| Equity-based compensation | — | — | — | — | — | — | — | 7,086 | — | — | — | 7,086 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (132) | — | — | (132) |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | (7,263) | — | (7,263) |
| **Balances at December 31, 2016** | **64,024,557** | **$ 6** | **—** | **$ —** | **—** | **$ —** | **$ (57,395)** | **$ 27,342** | **$ (3,547)** | **$ (12,339)** | **$ (293,968)** | **$ (339,901)** |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Stockholders' Deficit**
**December 31, 2017**
**(in thousands of United States dollars except share and per share amounts)**

| | Common Stock | | Preferred Stock | | Treasury Stock | | Additional Paid in Capital | Equity-Based Compensation | Accumulated Other Comprehensive Loss | | Accumulated Deficit | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | | |
| **Balances at January 1, 2017** | **64,024,557** | **$ 6** | **—** | **$ —** | **—** | **$ —** | **$ (57,395)** | **$ 27,342** | **$ (3,547)** | **$ (12,339)** | **$ (293,968)** | **$ (339,901)** |
| Net loss January 1 to December 31, 2017 | — | — | — | — | — | — | — | — | — | — | (204,285) | (204,285) |
| Equity-based compensation | — | — | — | — | — | — | — | 6,743 | — | — | — | 6,743 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | 3,353 | — | — | 3,353 |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | 1,285 | — | 1,285 |
| Merger recapitalization | 16,575,443 | 2 | — | — | — | — | 20,546 | — | — | — | — | 20,548 |
| Shares issued to acquire Novitex (refer to Note 3) | 30,600,000 | 3 | — | — | — | — | 244,797 | — | — | — | — | 244,800 |
| Issuance\Conversion of Quinpario shares | 12,093,331 | 1 | — | — | — | — | 22,358 | — | — | — | — | 22,359 |
| Sale of common shares at July 12, 2017 | 18,757,942 | 3 | — | — | — | — | 130,860 | — | — | — | — | 130,863 |
| Issuance of Series A Preferred Stock | — | — | 9,194,233 | 1 | — | — | 73,553 | — | — | — | — | 73,554 |
| Shares issued for advisory services and underwriting fees | 3,609,375 | — | — | — | — | — | 28,573 | — | — | — | — | 28,573 |
| Conversion of Series A Preferred Stock to common shares | 3,667,803 | — | (3,000,000) | — | — | — | — | — | — | — | — | — |
| Shares issued for HandsOn Global Management contract termination fee | 1,250,000 | — | — | — | — | — | 10,000 | — | — | — | — | 10,000 |
| Equity issuance expenses | — | — | — | — | — | — | (7,649) | — | — | — | — | (7,649) |
| Adjustment for beneficial conversion feature of Series A Preferred Stock (refer to Note 2) | — | — | — | — | — | — | 16,375 | — | — | — | (16,375) | — |
| Treasury stock purchases | (49,300) | — | — | — | 49,300 | (249) | — | — | — | — | — | (249) |
| **Balances at December 31, 2017** | **150,529,151** | **$ 15** | **6,194,233** | **1** | **49,300** | **$ (249)** | **$ 482,018** | **$ 34,085** | **$ (194)** | **$ (11,054)** | **$ (514,628)** | **$ (10,006)** |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Stockholders' Deficit**
**December 31, 2018**
**(in thousands of United States dollars except share and per share amounts)**

| | Common Stock | | Preferred Stock | | Treasury Stock | | Additional Paid in Capital | Equity-Based Compensation | Accumulated Other Comprehensive Loss | | Accumulated Deficit | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | | |
| **Balances at January 1, 2018** | **150,529,151** | **$ 15** | **6,194,233** | **$ 1** | **49,300** | **$ (249)** | **$ 482,018** | **$ 34,085** | **$ (194)** | **$ (11,054)** | **$ (514,628)** | **$ (10,006)** |
| Implementation of ASU 2014-09 (Note 2) | — | — | — | — | — | — | — | — | — | — | (1,418) | (1,418) |
| Net loss January 1 to December 31, 2018 | — | — | — | — | — | — | — | — | — | — | (162,517) | (162,517) |
| Equity-based compensation | — | — | — | — | — | — | — | 6,562 | — | — | — | 6,562 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (6,371) | — | — | (6,371) |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | 1,753 | — | 1,753 |
| RSU's exercised | 126,922 | — | — | — | — | — | — | 256 | — | — | — | 256 |
| Stock option expense | — | — | — | — | — | — | — | 828 | — | — | — | 828 |
| Preferred shares converted to common | 1,986,767 | — | (1,625,000) | — | — | — | — | — | — | — | — | — |
| Shares repurchased | (2,499,885) | — | — | — | 2,499,885 | (10,093) | — | — | — | — | — | (10,093) |
| **Balances at December 31, 2018** | **150,142,955** | **$ 15** | **4,569,233** | **$ 1** | **2,549,185** | **$ (10,342)** | **$ 482,018** | **$ 41,731** | **$ (6,565)** | **$ (9,301)** | **$ (678,563)** | **$ (181,006)** |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Cash Flows**
**For the years ended December 31, 2018, 2017 and 2016**
**(in thousands of United States dollars unless otherwise stated)**

| | Years ended December 31, 2018 | 2017 | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net loss | $ (162,517) | $ (204,285) | $ (48,103) |
| Adjustments to reconcile net loss | | | |
| Depreciation and amortization | 145,485 | 98,890 | 79,639 |
| Fees paid in stock | — | 23,875 | — |
| HGM contract termination fee paid in stock | — | 10,000 | — |
| Original issue discount and debt issuance cost amortization | 10,913 | 12,280 | 13,684 |
| Impairment of goodwill and other intangible assets | 48,127 | 69,437 | — |
| Provision for doubtful accounts | 2,767 | 500 | 756 |
| Deferred income tax provision (benefit) | 3,352 | (66,723) | (15,729) |
| Share-based compensation expense | 7,647 | 6,743 | 7,086 |
| Foreign currency remeasurement | (1,180) | 1,382 | 193 |
| Loss on sale of assets | 2,095 | 399 | 2,245 |
| Fair value adjustment for interest rate swap | (2,540) | (1,297) | — |
| Change in operating assets and liabilities, net of effect from acquisitions | | | |
| Accounts receivable | (19,319) | (4,832) | 20,801 |
| Prepaid expenses and other assets | (2,820) | 2,628 | 4,969 |
| Accounts payable and accrued liabilities | 5,157 | 69,551 **(1)** | 9,033 **(1)** |
| Related party payables | (6,710) | 4,907 | (2,427) |
| **Net cash provided by operating activities** | **30,457** | **23,455 (1)** | **72,147 (1)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | (20,072) | (14,440) | (7,926) |
| Additions to internally developed software | (7,438) | (7,843) | (13,017) |
| Additions to outsourcing contract costs | (7,552) | (10,992) | (14,636) |
| Cash acquired in TransCentra acquisition | — | — | 3,351 |
| Proceeds from sale of Assets | 3,568 | 4,607 | 626 |
| Cash acquired in Quinpario reverse merger | — | 91 | — |
| Cash paid in acquisition, net of cash received | (34,810) | (423,797) | — |
| **Net cash used in investing activities** | **(66,304)** | **(452,374)** | **(31,602)** |
| **Cash flows from financing activities** | | | |
| Change in bank overdraft | — | (210) | (1,331) |
| Loss on extinguishment of debt | 1,067 | 35,512 **(2)** | — |
| Proceeds from issuance of stock | — | 204,417 | — |
| Cash received from Quinpario | — | 27,031 | — |
| Repurchase of Common Stock | (7,221) | (249) | — |
| Proceeds from financing obligation | 11,557 | 3,116 | 5,429 |
| Contribution from Shareholders | — | 20,548 | — |
| Proceeds from new credit facility | 30,000 | 1,320,500 | — |
| Retirement of previous credit facilities | — | (1,055,736) | — |
| Cash paid for debt issuance costs | (1,094) | (39,837) | — |
| Cash paid for equity issue costs | (7,500) | (149) | — |
| Borrowings from revolver and swing-line loan | 30,000 | 72,600 | 53,700 |
| Repayments from revolver and swing line loan | (30,000) | (72,500) | (53,200) |
| Principal payments on long-term obligations | (28,719) | (39,316) | (47,853) |
| **Net cash provided by (used in) financing activities** | **(1,910)** | **475,727** | **(43,255)** |
| Effect of exchange rates on cash | 122 | 429 | (2,059) |
| **Net increase (decrease) in cash and cash equivalents** | **(37,635)** | **47,237 (1)** | **(4,769)(1)** |
| Cash and cash equivalents | | | |
| Beginning of period | 81,489 | 34,252 **(1)** | 39,021 **(1)** |
| End of period | $ 43,854 | $ 81,489 **(1)** | $ 34,252 **(1)** |
| **Supplemental cash flow data:** | | | |
| Income tax payments, net of refunds received | $ 7,827 | $ 5,711 | $ 3,771 |
| Interest paid | 146,076 | 69,622 | 96,166 |
| **Noncash investing and financing activities:** | | | |
| Assets acquired through capital lease arrangements | 14,920 | 6,973 | 11,925 |
| Leasehold improvements funded by lessor | 1,565 | 146 | 5,186 |
| Issuance of common stock as consideration for Novitex | — | 244,800 | — |
| Accrued capital expenditures | 2,820 | 1,621 | 580 |
| Dividend equivalent on Series A Preferred Stock | — | 16,375 | — |
| Liability assumed of Quinpario | — | 4,672 | — |

**(1)** Balances for these items differ from previously reported balances due to the adoption of ASU no. 2016-18, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Topic 230),* see Note 2.

**(2)** Exela reclassified 'Loss on extinguishment of debt' from operating to financing activities due to the adoption of ASU no. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments,* see Note 2.

The accompanying notes are an integral part of these consolidated financial statements.

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**1. Description of the Business**

**Organization**

Exela Technologies, Inc. (the “Company” or “Exela”) is a global provider of transaction processing solutions, enterprise information management, document management and digital business process services. The Company provides mission-critical information and transaction processing solutions services to clients across three major industry verticals: (1) Information & Transaction Processing, (2) Healthcare Solutions, and (3) Legal and Loss Prevention Services. The Company manages information and document driven business processes and offers solutions and services to fulfill specialized knowledge-based processing and consulting requirements, enabling clients to concentrate on their core competencies. Through its outsourcing solutions, the Company enables businesses to streamline their internal and external communications and workflows.

The Company was originally incorporated in Delaware on July 15, 2014 as a special purpose acquisition company under the name Quinpario Acquisition Corp 2 (“Quinpario”) for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination involving Quinpario and one or more businesses or entities. On July 12, 2017 (the “Closing”), the Company consummated its business combination with SourceHOV Holdings, Inc. (“SourceHOV”) and Novitex Holdings, Inc. (“Novitex”) pursuant to the Business Combination Agreement and Consent, Waiver and Amendment to the Business Combination Agreement, dated February 21, 2017 and June 15, 2017, respectively (the “Novitex Business Combination”). In connection with the Closing, the Company changed its name from Quinpario Acquisition Corp 2 to Exela Technologies, Inc. Unless the context otherwise requires, the “Company” refers to the combined company and its subsidiaries following the Novitex Business Combination, “Quinpario” refers to the Company prior to the closing of the Novitex Business Combination, “SourceHOV” refers to SourceHOV prior to the Novitex Business Combination and “Novitex” refers to Novitex prior to the Novitex Business Combination. Refer to Note 3 for further discussion of the Novitex Business Combination.

**2. Basis of Presentation and Summary of Significant Accounting Policies**

The following is a summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements.

**Basis of Presentation**

The accompanying consolidated financial statements and related notes to the consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”) and in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”).

The Novitex Business Combination has been accounted for as a reverse merger in accordance with U.S. GAAP. For accounting purposes, SourceHOV was deemed to be the accounting acquirer, Quinpario was the legal acquirer, and Novitex is considered the acquired company. In conjunction with the Novitex Business Combination, outstanding shares of SourceHOV were converted into Common Stock of the Company, par value $0.0001 per share, shown as a recapitalization, and the net assets of Quinpario were acquired at historical cost, with no goodwill or other intangible assets recorded. The consolidated assets and liabilities as of December 31, 2016, and results of operations for the years ended December 31, 2016 and 2015 are those of SourceHOV. Quinpario’s assets and liabilities, which include net cash from the trust of $27.0 million and accrued fees payable of $4.8 million, and results of operations are consolidated with SourceHOV beginning on the Closing. The shares and corresponding capital amounts and earnings per share available to holders of the Company’s Common Stock, prior to the Novitex Business Combination, have been retroactively restated as shares reflecting the exchange ratio established in the Novitex Business Combination. The presented financial information for the year ended December 31, 2017 includes the financial information and activities for SourceHOV for the period January 1, 2017 to December 31, 2017 ( 365 days) as well as the financial information and activities of Novitex for the period July 13, 2017 to December 31, 2017 ( 172 days).

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**Principles of Consolidation**

The accompanying consolidated financial statements and related notes to the consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In addition, the Company evaluates its relationships with other entities to identify whether they are variable interest entities as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810-10, Consolidation and whether the Company is the primary beneficiary. Consolidation is required if both of these criteria are met./

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgments relied upon in preparing these consolidated financial statements include revenue recognition for multiple element arrangements, allowance for doubtful accounts, income taxes, depreciation, amortization, employee benefits, equity-based compensation, contingencies, goodwill, intangible assets, fair value of assets and liabilities acquired in acquisitions, and asset and liability valuations. The Company regularly assesses these estimates and records changes in estimates in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that the Company believes to be reasonable under the circumstances. Actual results could differ from those estimates.

**Segment Reporting**

The Company consists of the following three segments:

*1. Information & Transaction Processing Solutions ("ITPS").* ITPS provides industry-specific solutions for banking and financial services, including lending solutions for mortgages and auto loans, and banking solutions for clearing, anti-money laundering, sanctions, and interbank cross-border settlement; property and casualty insurance solutions for origination, enrollments, claims processing, and benefits administration communications; public sector solutions for income tax processing, benefits administration, and record management; multi-industry solutions for payment processing and reconciliation, integrated receivables and payables management, document logistics and location services, records management and electronic storage of data, documents; and software, hardware, professional services and maintenance related to information and transaction processing automation, among others.

*2. Healthcare Solutions ("HS").* HS offerings include revenue cycle solutions, integrated accounts payable and accounts receivable, and information management for both the healthcare payer and provider markets. Payer service offerings include claims processing, claims adjudication and auditing services, enrollment processing and policy management, and scheduling and prescription management. Provider service offerings include medical coding and insurance claim generation, underpayment audit and recovery, and medical records management.

*3. Legal and Loss Prevention Services ("LLPS").* LLPS solutions include processing of legal claims for class action and mass action settlement administrations, involving project management support, notification and outreach to claimants, collection, analysis and distribution of settlement funds. Additionally, LLPS provides data and analytical services in the context of litigation consulting, economic and statistical analysis, expert witness services, and revenue recovery services for delinquent accounts receivable.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash deposited with financial institutions and liquid investments with original maturity dates equal to or less than three months. All bank deposits and money market accounts are considered cash and cash equivalents. The Company holds cash and cash equivalents at major financial institutions, which often exceed Federal Deposit Insurance Corporation insured limits. Historically, the Company has not experienced any losses due to such bank depository concentration.

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Certificates of deposit and fixed deposits whose original maturity is greater than three months and is one year or less are classified as short-term investments and certificates of deposit and fixed deposits whose maturity is greater than one year at the balance sheet date are classified as non-current assets in the consolidated balance sheets. The purchase of any certificates of deposit or fixed deposits that are classified as short-term investments or non-current assets appear in the investing section of the consolidated statements of cash flows.

**Restricted Cash**

As part of the Company's legal claims processing service, the Company holds cash for various settlement funds once the fund is in the wind down stage and claims have been paid. The cash is used to pay tax obligations and other liabilities of the settlement funds. The Company has recorded an offsetting liability for the settlement funds received, which is included in Obligation for claim payment in the consolidated balance sheets of $56.0 million and $42.5 million at December 31, 2018 and 2017, respectively. Of the total amount of settlement funds received, $10.6 million and $22.9 million were not subject to legal restrictions on use as of December 31, 2018 and December 31, 2017, respectively.

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are carried at the original invoice amount less an estimate made for doubtful accounts. Revenue that has been earned but remains unbilled at the end of the period is recorded as a component of accounts receivable, net. The Company specifically analyzes accounts receivable and historical bad debts, customer credit-worthiness, current economic trends, and changes in customer payment terms and collection trends when evaluating the adequacy of its allowance for doubtful accounts. The Company writes off accounts receivable balances against the allowance for doubtful accounts, net of any amounts recorded in deferred revenue, when it becomes probable that the receivable will not be collected.

**Inventories**

Inventories are valued at the lower of cost and net realizable value method and include the cost of raw materials, labor, and purchased subassemblies. Cost is determined using the weighted average method. Net Inventory as of December 31, 2018 and 2017 were $16.2 million and $11.9 million, respectively.

**Property, Plant and Equipment**

Property, plant, and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method (which approximates the use of the assets) over the estimated useful lives of the assets. When these assets are sold or otherwise disposed of, the asset and related depreciation is relieved, and any gain or loss is included in the consolidated statements of operations for the period of sale or disposal. Leasehold improvements are amortized over the lease term or the useful life of the asset, whichever is shorter. Assets under capital leases are amortized over the lease term unless ownership is transferred by the end of the lease or there is a bargain purchase option, in which case assets are amortized normally on a straight-line basis over the useful life that would be assigned if the assets were owned. The amortization of these capital lease assets is recorded in depreciation expense in the consolidated statements of operations. Repair and maintenance costs are expensed as incurred.

**Intangible Assets**

*Customer Relationships*

Customer relationship intangible assets represent customer contracts and relationships obtained as part of acquired businesses. Customer relationship values are estimated by evaluating various factors including historical attrition rates, contractual provisions and customer growth rates, among others. The estimated average useful lives of customer relationships range from 4 to 16 years depending on facts and circumstances. These intangible assets are primarily amortized based on undiscounted cash flows. The Company evaluates the remaining useful life of intangible assets on an annual basis to determine whether events and circumstances warrant a revision to the remaining useful life.

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*Trade Names*

The Company has determined that its trade name intangible assets are indefinite-lived assets and therefore are not subject to amortization. The Company performed a quantitative analysis as part of the annual impairment test on October 1, 2018 and October 1, 2017, and recorded an impairment charge. Additionally, late in the fourth quarter of 2017, the Company implemented a strategy to transition to a unified Exela brand beginning in 2018. As a result, the Company performed a quantitative analysis as of December 31, 2017, and recorded another impairment charge. The Company's valuation of trade names at the reporting unit level utilizes the Relief-from-Royalty method that represents the present value of the future economic benefits generated by ownership of the trade names and approximates the amount that the Company would have to pay as a royalty to a third party to license such names.

*Trademarks*

The Company has determined that its trademark intangible assets resulting from acquisitions are definite-lived assets and therefore are subject to amortization. The Company has historically amortized trademarks on a straight-line basis over the estimated useful life, which is typically 1 year. As part of the impairment analysis completed as of December 31, 2017, and due to the Company's strategy to transition to a unified Exela brand beginning in 2018, the Company reduced the estimated useful lives of its trademarks and amortized the trademarks over a one year period.

*Developed Technology*

The Company has various developed technologies embedded in its technology platform. Developed technology is an integral asset to the Company in providing solutions to customers and is recorded as an intangible asset. The Company amortizes developed technology on a straight-line basis over the estimated useful life, which is typically 5 to 8.5 years.

*Capitalized Software Costs*

The Company capitalizes certain costs incurred to develop software products to be sold, leased or otherwise marketed after establishing technological feasibility in accordance with ASC section 985-20, Software—Costs of Software to Be Sold, Leased, or Marketed, and the Company capitalizes costs to develop or purchase internal-use software in accordance with ASC section 350-40, Intangibles—Goodwill and Other— Internal-Use Software. Significant estimates and assumptions include determining the appropriate period over which to amortize the capitalized costs based on estimated useful lives and estimating the marketability of the commercial software products and related future revenues. The Company amortizes capitalized software costs on a straight-line basis over the estimated useful life, which is typically 3 to 5 years.

*Outsourced Contract Costs*

Costs of outsourcing contracts, including costs incurred for bid and proposal activities, are generally expensed as incurred. However, certain costs incurred upon initiation of an outsourcing contract are deferred and expensed on a straight-line basis over the estimated contract term. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or transition activities and can be separated into two principal categories: contract commissions and transition/set-up costs. Examples of such capitalized costs include hourly labor and related fringe benefits and travel costs.

*Non-compete Agreements*

The Company acquired certain non-compete agreements in connection with the Novitex Business Combination. These were related to four Novitex executives that were terminated following the acquisition. As of December 31, 2018 these agreements were fully amortized.

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*Assembled Workforce*

The Company acquired assembled workforce in an assets purchase transaction in the fourth quarter of 2018. The Company recognized an intangible asset for the acquired assembled workforce and shall amortize the asset on a straight-line basis over the estimated useful life of 4 years.

**Impairment of Indefinite-Lived Assets**

The Company conducts its annual indefinite-lived assets impairment tests on October 1st of each year for its indefinite-lived trade names, or more frequently if indicators of impairment exist. When performing the impairment test, the Company has the option of performing a qualitative or quantitative assessment to determine if an impairment has occurred. A quantitative assessment requires comparison of fair value of the asset to its carrying value. The Company utilizes the Income Approach, specifically the Relief-from-Royalty method, which has the basic tenet that a user of that intangible asset would have to make a stream of payments to the owner of the asset in return for the rights to use that asset. Refer to Note 7- Intangible Assets and Goodwill for additional discussion of impairment of trade names.

**Impairment of Long-Lived Assets**

The Company reviews the recoverability of its long-lived assets, including finite-lived trade names, trademarks, customer relationships, developed technology, capitalized software costs, outsourced contract costs, acquired software, workforce, and property, plant and equipment, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The primary measure of fair value is based on discounted cash flows based in part on the financial results and the expectation of future performance.

The Company did not record any material impairment related to its property, plant, and equipment, customer relationships, trademarks, developed technology, capitalized software, or outsourced contract costs for the years ended December 31, 2018, 2017, and 2016.

**Goodwill**

Goodwill represents the excess purchase price over tangible and intangible assets acquired less liabilities assumed arising from business combinations. Goodwill is generally allocated to reporting units based upon relative fair value (taking into consideration other factors such as synergies) when an acquired business is integrated into multiple reporting units. The Company's reporting units are at the operating segment level, which discrete financial information is prepared and regularly reviewed by management. When a business within a reporting unit is disposed of, goodwill is allocated to the disposed business using the relative fair value method.

The Company conducts its annual goodwill impairment tests on October 1st of each year, or more frequently if indicators of impairment exist. When performing the annual impairment test, the Company has the option of performing a qualitative or quantitative assessment to determine if an impairment has occurred. If a qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company would be required to perform a quantitative impairment analysis for goodwill. The quantitative analysis requires a comparison of fair value of the reporting unit to its carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The Company uses a combination of the Guideline Public Company Method of the Market Approach and the Discounted Cash Flow Method of the Income Approach to determine the reporting unit fair value. *Refer to Note 7- Intangible Assets and Goodwill* for additional discussion of impairment of goodwill.

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**Derivative Instruments and Hedging Activities**

As required by ASC 815—Derivatives and Hedging, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

The Company's objective in using interest rate derivatives is to manage its exposure to variable interest rates related to its term loan under the Credit Agreement. In order to accomplish this objective, in November 2017, the Company entered into a three year, one-month LIBOR interest rate contract with a notional amount of $347.8 million. The contract will mitigate the variable interest rate risk related to the LIBOR with a fixed interest rate paid semi-annually starting January 12, 2018.

The following table summarizes the Company's interest rate swap positions as of December 31, 2018:

| | | December 31, 2018 | |
|---|---|---|---|
| Effective date | Maturity date | (In Millions) Notional Amount | Weighted Average Interest Rate |
| 1/12/2018 | 1/12/2021 | $ 339.1 | 1.9725 % |

The interest rate swap, which is used to manage the Company's exposure to interest rate movements and other identified risks, was not designated as a hedge. As such, the change in the fair value of the derivative is recorded directly in earnings and was a gain of $2.5 million and $1.3 million for the year ended December 31, 2018 and 2017, respectively.

**Benefit Plan Accruals**

The Company has defined benefit plans in the U.K and Germany, under which participants earn a retirement benefit based upon a formula set forth in the plan. The Company records expense related to this plan using actuarially determined amounts that are calculated under the provisions of ASC 715, Compensation-Retirement Benefits. Key assumptions used in the actuarial valuations include the discount rate, the expected rate of return on plan assets and the rate of increase in future compensation levels. Refer to Note 11- Employee Benefit Plans.

**Leases**

Leases are classified as capital leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under a capital lease are initially recognized as assets of the Company at their fair value at the inception of the lease, or if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the other long-term obligations in the consolidated balance sheets. Operating lease payments are initially recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed.

**Stock-Based Compensation**

The Company accounts for stock based compensation in accordance with ASC 718, Compensation- Stock Compensation. ASC 718 requires generally that all equity awards be accounted for at their "fair value." This fair value is measured at the fair value of value of the awards at the grant date and recognized as compensation expense on a straight-line basis over the vesting period. The fair value of the awards on the grant date is determined using the Enterprise Value

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model. The expense resulting from share-based payments is recorded in general and administrative expense in the accompanying consolidated statements of operations. *Refer to Note 14 - Stock-Based Compensation.*

**Revenue Recognition**

We account for revenue in accordance with ASC 606. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. All of our material sources of revenue are derived from contracts with customers, primarily relating to the provision of business and transaction processing services within each of our segments. We do not have any significant extended payment terms, as payment is received shortly after goods are delivered or services are provided.

***Nature of Services***

Our primary performance obligations are to stand ready to provide various forms of business processing services, consisting of a series of distinct services that are substantially the same and have the same pattern of transfer over time, and accordingly are combined into a single performance obligation. Our promise to our customers is typically to perform an unknown or unspecified quantity of tasks and the consideration received is contingent upon the customers' use (i.e., number of transactions processed, requests fulfilled, etc.); as such, the total transaction price is variable. We allocate the variable fees to the single performance obligation charged to the distinct service period in which we have the contractual right to bill under the contract.

***Disaggregation of Revenues***

The following tables disaggregate revenue from contracts by geographic region and by segment for the year ended December 31, 2018, 2017, and 2016:

| | Year Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | | 2016 | | |
| | ITPS | HS | LLPS | ITPS | HS | LLPS | ITPS | HS | LLPS |
| United States | $1,034,941 | $228,015 | $84,560 | $675,613 | $233,595 | $91,619 | $304,563 | $247,796 | $102,206 |
| Europe | 211,314 | — | — | 136,531 | — | — | 131,287 | — | — |
| Other | 27,392 | — | — | 14,966 | — | — | 4,074 | — | — |
| Total | $1,273,647 | $228,015 | $84,560 | $827,110 | $233,595 | $91,619 | $439,924 | $247,796 | $102,206 |

***Contract Balances***

The following table presents contract assets and contract liabilities recognized at December 31, 2018 and 2017:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accounts receivable, net | $ 270,812 | $ 229,704 |
| Deferred revenues | 16,940 | 13,717 |
| Costs to obtain and fulfill a contract | 18,624 | 22,929 |
| Customer deposits | 34,235 | 31,656 |

Accounts receivable, net includes $39.5 million and $28.4 million as of December 31, 2018 and 2017, respectively, representing amounts not billed to customers. We have accrued the unbilled receivables for work performed in accordance with the terms of contracts with customers.

Deferred revenues relate to payments received in advance of performance under a contract. A significant portion of this balance relates to maintenance contracts or other service contracts where we received payments for

upfront conversions or implementation activities which do not transfer a service to the customer but rather are used in fulfilling the related performance obligations that transfer over time. The advance consideration received from customers is deferred over the contract term. We recognized revenue of $13.4 million during the year ended December 31, 2018 that had been deferred as of December 31, 2017.

Costs incurred to obtain and fulfill contracts are deferred and expensed on a straight-line basis over the estimated benefit period. We recognized $10.5 million of amortization for these costs in 2018 within depreciation and amortization expense. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or transition activities and can be separated into two principal categories: contract commissions and transition/set-up costs. Examples of such capitalized costs include hourly labor and related fringe benefits and travel costs. Applying the practical expedient in ASC 340-40-25-4, we recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period would have been one year or less. These costs are included in Selling, general and administrative expenses. The effect of applying this practical expedient was not material.

Customer deposits consist primarily of amounts received from customers in advance for postage. The majority of the amounts recorded as of December 31, 2017 were used to pay for postage with the corresponding postage revenue being recognized during the year ended December 31, 2018.

***Performance Obligations***

At the inception of each contract, we assess the goods and services promised in our contracts and identify each distinct performance obligation. The majority of our contracts have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts. For the majority of our business and transaction processing service contracts, revenues are recognized as services are provided based on an appropriate input or output method, typically based on the related labor or transactional volumes.

Certain of our contracts have multiple performance obligations, including contracts that combine software implementation services with post-implementation customer support. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we estimate our expected costs of satisfying a performance obligation and add an appropriate margin for that distinct good or service. We also use the adjusted market approach whereby we estimate the price that customers in the market would be willing to pay. In assessing whether to allocate variable consideration to a specific part of the contract, we consider the nature of the variable payment and whether it relates specifically to its efforts to satisfy a specific part of the contract. Certain of our software implementation performance obligations are satisfied at a point in time, typically when customer acceptance is obtained.

When evaluating the transaction price, we analyze, on a contract-by-contract basis, all applicable variable consideration. The nature of our contracts give rise to variable consideration, including volume discounts, contract penalties, and other similar items that generally decrease the transaction price. We estimate these amounts based on the expected amount to be provided to customers and reduce revenues recognized. We do not anticipate significant changes to our estimates of variable consideration.

We include reimbursements from customers, such as postage costs, in revenue, while the related costs are included in cost of revenue.

***Transaction Price Allocated to the Remaining Performance Obligations***

In accordance with optional exemptions available under ASC 606, we did not disclose the value of unsatisfied performance obligations for (1) contracts with an original expected length of one year or less, and (2) contracts for which variable consideration relates entirely to an unsatisfied performance obligation, which comprise the majority of our contracts. We have certain non-cancellable contracts where we receive a fixed monthly fee in exchange for a series of

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distinct services that are substantially the same and have the same pattern of transfer over time, with the corresponding remaining performance obligations as of December 31, 2018 in each of the future periods below:

| Estimated Remaining Fixed Consideration for Unsatisfied Performance Obligations | | |
|---|---|---|
| 2019 | $ | 40,402 |
| 2020 | | 23,310 |
| 2021 | | 13,416 |
| 2022 | | 4,780 |
| 2023 | | 1,113 |
| 2024 and thereafter | | 771 |
| Total | $ | 83,792 |

**Research and Development**

Research and development costs are expensed as incurred. Research and development costs expensed for the years ended December 31, 2018, 2017, and 2016 were $2.0 million, $2.3 million, and $2.3 million, respectively.

**Advertising**

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2018, 2017, and 2016, were $0.9 million, $0.7 million, and $1.1 million, respectively.

**Income Taxes**

The Company accounts for income taxes by using the asset and liability method. The Company accounts for income taxes regarding uncertain tax positions and recognized interest and penalties related to uncertain tax positions in income tax benefit/ (expense) in the consolidated statements of operations.

Deferred income taxes are recognized on the tax consequences of temporary differences by applying enacted statutory tax rates applicable in future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, as determined under tax laws and rates. A valuation allowance is provided when it is more likely than not that all or some portion of the deferred tax assets will not be realized. Due to numerous ownership changes, the Company is subject to limitations on existing net operating losses under Section 382 of the Internal Revenue Code (the Code). Accordingly, valuation allowances have been established against a portion of the net operating losses to reflect estimated Section 382 limitations. The Company also considered the realizability of net operating losses not limited by Section 382. The Company did not consider future book income as a source of taxable income when assessing if a portion of the deferred tax assets are more likely than not to be realized. However, scheduling the reversal of existing deferred tax liabilities indicated that only a portion of the deferred tax assets are likely to be realized. Therefore, partial valuation allowances were established against a portion of the Company's deferred tax assets. In the event the Company determines that it would be able to realize deferred tax assets that have valuation allowances established, an adjustment to the net deferred tax assets would be recognized as component of income tax expense through continuing operations.

The Company engages in transactions (i.e. acquisitions) in which the tax consequences may be subject to uncertainty and examination by the varying taxing authorities. Significant judgment is required by the Company in assessing and estimating the tax consequences of these transactions. While the Company's tax returns are prepared and based on the Company's interpretation of tax laws and regulations, in the normal course of business the tax returns are subject to examination by the various taxing authorities. Such examinations may result in future assessments of additional tax, interest and penalties. For purposes of the Company's income tax provision, a tax benefit is not recognized if the tax position is not more likely than not to be sustained based solely on its technical merits. Considerable judgment is involved in determining which tax positions are more likely than not to be sustained. *Refer to Note 10 - Income Taxes* for further information.

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**Loss Contingencies**

The Company reviews the status of each significant matter, if any, and assess its potential financial exposure considering all available information including, but not limited to, the impact of negotiations, settlements, rulings, advice of legal counsel and other updated information and events pertaining to a particular matter. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to loss contingencies, accruals are based only on the best information available at the time. As additional information becomes available, the Company reassesses the potential liability related to its pending claims and litigation, and may revise its estimates. These revisions in the estimates of the potential liabilities could have a material impact on the results of operations and financial position. The Company's liabilities exclude any estimates for legal costs not yet incurred associated with handling these matters.

**Operations**

A portion of the Company's labor and operations is situated outside of the United States in India and other locations. The carrying value of long-lived assets that are situated outside of the United States is approximately $34.4 million and $26.2 million as of December 31, 2018 and 2017, respectively

**Foreign Currency Translation**

The functional currency for the Company's production operations located in India, Philippines, China, and Mexico is the United States dollar. Included in other expense as "Sundry expense (income), net" in the consolidated statements of operations are net exchange gains of $1.2 million for the year ended December 31, 2018 and losses of $1.4 million, and $0.2 million for the years ended December 31, 2017 and 2016, respectively.

The Company has determined all other international subsidiaries' functional currency is the local currency. These assets and liabilities are translated at exchange rates in effect at the balance sheet date while income and expense amounts are translated at average exchange rates during the period. The resulting foreign currency translation adjustments are disclosed as a separate component of other comprehensive loss.

**Beneficial Conversion Feature**

The Company's Series A Perpetual Convertible Preferred Stock, par value $0.0001 per share (the "Series A Preferred Stock") contains a beneficial conversion feature, which arises when a debt or equity security is issued with an embedded conversion option that is beneficial to the investor or in the money at inception because the conversion option has an effective strike price that is less than the market price of the underlying stock at the commitment date. The Company recognized the beneficial conversion feature by allocating the intrinsic value of the conversion option, which is the number of shares of Common Stock available upon conversion multiplied by the difference between the effective conversion price per share and the fair value of Common Stock per share on the commitment date, to additional paid-in capital, resulting in a discount on the Series A Preferred Stock. As a result of the occurrence of events meeting the definition of a "Fundamental Change" as defined in the Certificate of Designations, Preferences, Rights and Limitations of Series A Perpetual Convertible Preferred Stock of the Company during the period, the Company recognized the entire dividend equivalent of $16.4 million as of December 31, 2017. There was no dividend equivalent recognized in 2018.

**Net Loss per Share**

Earnings per share ("EPS") is computed by dividing net loss available to holders of the Company's Common Stock by the weighted average number of shares of Common Stock outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock, using the more dilutive of the two-class method or if-converted method in periods of earnings. The two class method is an earnings allocation method that determines earnings per share for Common Stock and participating securities. As the Company experienced net

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losses for the periods presented, the impact of participating Series A Preferred Stock was calculated based on the if-converted method. Diluted EPS excludes all dilutive potential of shares of Common Stock if their effect is anti-dilutive.

For the year ended December 31, 2018 shares of the Company's Series A Convertible Preferred Stock ("Series A Preferred Stock"), if converted would have resulted in an additional 5,586,344 shares of common stock outstanding, but were not included in the computation of diluted loss per share as their effects were anti-dilutive.

The Company has not included the effect of 35,000,000 warrants sold in the Quinpario Initial Public Offering ("IPO") in the calculation of net income (loss) per share. Warrants are considered anti-dilutive and excluded when the exercise price exceeds the average market value of the Company's Common Stock price during the applicable period.

The components of basic and diluted EPS are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Net loss attributable to common stockholders (A) | $ (166,172) | $ (223,149) | $ (48,103) |
| Weighted average common shares outstanding - basic and diluted (B) | 152,343,823 | 107,068,262 | 64,024,557 |
| **Loss Per Share:** | | | |
| Basic and diluted (A/B) | $ (1.09) | $ (2.08) | $ (0.75) |

**Business Combinations**

The Company includes the results of operations of the businesses acquired as of the respective dates of acquisition. The Company allocates the fair value of the purchase price of acquisitions to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value of the purchase price over the fair values of these identifiable assets and liabilities is recorded as goodwill.

**Fair Value Measurements**

The Company records the fair value of assets and liabilities in accordance with ASC 820, *Fair Value Measurement* ("ASC 820"). ASC 820 defines fair value as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

In addition to defining fair value, ASC 820 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 — unobservable inputs reflecting Management's own assumptions about the inputs used in pricing the asset or liability at fair value.

*Refer to Note 13 — Fair Value Measurement* for further discussion.

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**Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents and trade receivables. The Company maintains its cash and cash equivalents and certain other financial instruments with highly rated financial institutions and limits the amount of credit exposure with any one financial institution. From time to time, the Company assesses the credit worthiness of its customers. Credit risk on trade receivables is minimized because of the large number of entities comprising the Company's client base and their dispersion across many industries and geographic areas. The Company generally has not experienced any material losses related to receivables from any individual customer or groups of customers. The Company does not require collateral. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed by management to be probable in the Company's accounts receivable, net. The Company does not have any significant customers that account for 10% or more of the total consolidated revenues

**Recently Adopted Accounting Pronouncements**

Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") no. 2014-09, *Revenue from Contracts with Customers (ASC 606)*. Under ASU 2014-09, revenue is recognized based on a five-step model. The core principle of the model is that revenue will be recognized when the transfer of promised goods or services to customers is made in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted this standard using the modified retrospective approach applied to those contracts that were not completed as of January 1, 2018. The results for the reporting period beginning after January 1, 2018 are presented in accordance with the new standard, although historical information has not been restated and continues to be reported under the accounting standards and policies in effect for those periods. The adoption of ASC 606 did not have a material impact on the Company's financial position, results of operations and cash flows as of or for the period ended December 31, 2018, and we expect the impact of the adoption of the new standard will be immaterial to our results of operations on an ongoing basis. The cumulative effect of accounting change recognized was $1.4 million recorded as an increase to beginning balance of accumulated deficit, and a corresponding reduction to Accounts Receivable, net. See Note 3 for additional disclosure.

Effective January 1, 2018, the Company adopted ASU no. 2016-15, *(Topic 230): Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments,* which adds or clarifies guidance on the presentation and classification of eight specific types of cash receipts and cash payments in the statement of cash flows such as debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees, with the intent of reducing diversity in practice. We applied the guidance retrospectively to all periods presented. Exela reclassified a loss on extinguishment of debt from operating activities to financing activities in the third quarter of 2017 in the currently presented financial statements ended December 31, 2018. The adoption had no impact on the Company's financial position, results of operations, and net cash flows for the period ended December 31, 2018.

Effective January 1, 2018, the Company adopted ASU no. 2016-18, *(Topic 230): Restricted Cash. Statement of Cash Flows: Restricted Cash*. The ASU addresses diversity in practice that exists in the classification and presentation of changes in restricted cash and requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. We applied the guidance retrospectively to all periods presented. As a result of adopting the ASU no. 2016-18, restricted cash is included in the balances of restricted cash, cash and cash equivalents presented in the Statement of Cash Flows for the year ended December 31, 2018, 2017, and 2016. Adopting the standard increased the net change in cash and cash equivalents, which is reflected within operating cash flows, by $16.6 million and $3.5 million for the year ended December 31, 2017 and 2016. Total Cash and cash equivalents for the Beginning of period and End of period December 31, 2017 increased $25.9 million and $42.5 million due to the inclusion of restricted cash. Total Cash and cash equivalents for the Beginning of period and End of period December 31, 2016 increased $22.4 million and $25.9 million due to the inclusion of restricted cash.

Effective October 1, 2017 the Company adopted ASU 2017-04, *(Topic 350) Intangibles Goodwill and Other – Simplifying the Test for Goodwill Impairment.* Previous guidance required an entity that has not elected the private company alternative for goodwill to perform a two-step test to determine the amount, if any, of goodwill impairment. In

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Step 1, an entity compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the entity performs Step 2 and compares the implied fair value of goodwill with the carrying amount of that goodwill for that reporting unit. An impairment charge equal to the amount by which the carrying amount of goodwill for the reporting unit exceeds the implied fair value of that goodwill is recorded, limited to the amount of goodwill allocated to that reporting unit. To address concerns over the cost and complexity of the two-step goodwill impairment test, the amendments in this Update remove the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment.

Effective January 1, 2018, the Company adopted ASU no. 2017-07, *(Topic 715): Compensation Retirement Benefit; Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments to this ASU require the service cost component of net periodic benefit cost be reported in the same income statement line or lines as other compensation costs for employees. The other components of net periodic benefit cost are required to be reported separately from service costs and outside a subtotal of income from operations. The new standard requires retrospective application and allows a practical expedient that permits an employer to use the amounts disclosed in its pension plan footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation. Adoption of the standard resulted in only the service cost being recorded to Cost of revenue.

**Recently Issued Accounting Pronouncements**

In February 2016, the FASB issued ASU no. 2016-02, *Leases (842)* This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Since the issuance of the original standard, the FASB has issued a subsequent update that provides a practical expedient for land easements (ASU 2018-01). The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years and early application is permitted. The standard becomes effective for the Company January 1, 2019. The Company will use a modified retrospective adoption approach in the period of adoption with the effective date as its date of initial application on January 1, 2019, in its first reporting on adoption. We have elected the following practical expedients permitted under the transition guidance within the new standard.

- Not to record leases with an initial term of 12 months on the balance sheet;
- Not to reassess the (1) definition of a lease, (2) lease classification, and (3) initial direct costs for existing leases during transition.

Upon adoption, the Company expects to record a material amount of right-of-use assets before deferred taxes, representing the present value of future lease payments under leases with terms of greater than twelve months. The Company also expects to record corresponding liabilities for the same amount. The Company does not expect to make any material cumulative adjustment to the opening balance of equity.

In June 2016, the FASB issued ASU no. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, to replace the incurred loss impairment methodology under current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The standard will be effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

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In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. Part I of this ASU addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this ASU addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The company is adopting this standard in the first quarter of fiscal 2019 and is currently evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12*, Derivatives and Hedging (Topic 815);* Targeted Improvements to Accounting for Hedging Activities. The amendments in this ASU better align the risk management activities and financial reporting for these hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The company is adopting this standard in the first quarter of fiscal 2019 and is currently evaluating the impact that adopting this standard will have on the consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendments in this ASU address a narrow-scope financial reporting issue related to the tax effects that may become "stranded" in accumulated other comprehensive income (AOCI) as a result of the Tax Cuts and Jobs Act (TCJA). An entity may elect to reclassify the income tax effects of the TCJA on items within AOCI to retained earnings. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The company is adopting this standard in the first quarter of fiscal 2019 and is currently evaluating the impact that adopting this standard will have on the consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation—Stock Compensation (Topic 718):* Improvements to Nonemployee Share-Based Payment Accounting to amend the accounting for share-based payment awards issued to nonemployees. Under the revised guidance, the accounting for awards issued to nonemployees will be similar to the model for employee awards, except that: the ASU allows an entity to elect on an award-by-award basis to use the contractual term as the expected term assumption in the option pricing model, and the cost of the grant is recognized in the same period(s) and in the same manner as if the grantor had paid cash. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The company is adopting this standard in the first quarter of fiscal 2019 and is currently evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles, Goodwill, and Other - Internal Use Software (Subtopic 350-40): Customer's accounting for implementation costs incurred in a Cloud Computing Arrangement that is a service contract*. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments also require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, which includes reasonably certain renewals. The guidance is effective for fiscal years beginning after December 15, 2019, and

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interim periods within those fiscal years. The company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

**3. Business Combinations**

**Novitex**

On July 12, 2017, the Company consummated its business combination with SourceHOV and Novitex pursuant to the Business Combination Agreement and Consent, Waiver and Amendment to the Business Combination Agreement, dated February 21, 2017 and June 15, 2017, respectively. In connection with the Novitex Business Combination, the Company acquired debt facilities and issued notes totaling $1.4 billion *(refer to Note 9 – Long Term Debt and Credit Facilities)*. Proceeds from the acquired debt were used to refinance the existing debt of SourceHOV, settle the outstanding debt of Novitex, and pay fees and expenses incurred in connection with the Novitex Business Combination. Immediately following the Novitex Business Combination, there were 146,910,648 shares of Common Stock, 9,194,233 shares of Series A Preferred Stock, and 35,000,000 warrants outstanding. *Refer to Note 15 – Stockholders' Equity*.

Under ASC 805, *Business Combinations*, SourceHOV was deemed the accounting acquirer based on the following predominate factors: its former owners have the largest portion of voting rights in the Company, the board and Management has more individuals coming from SourceHOV than either Quinpario or Novitex, SourceHOV was the largest entity by revenue and by assets, and the headquarters was moved to the SourceHOV headquarters location.

The Company acquired 100% of the equity of Novitex pursuant to the Novitex Business Combination Agreement by issuing 30,600,000 shares of Common Stock of Exela to Novitex Parent, L.P., the sole stockholder of Novitex. Total value of equity for the transaction was $244.8 million. Additionally, as noted, the Company used proceeds from acquired debt to settle the outstanding debt of Novitex in the amount of $420.5 million, and pay transaction related costs and interest on behalf of Novitex in the amount of $10.3 million and $1.0 million, respectively, which was accounted for as part of consideration.

The acquired assets and assumed liabilities of Novitex were recorded at their estimated fair values. The purchase price allocation for the Novitex business combination is preliminary and subject to change within the respective measurement period which will not extend beyond one year from the acquisition date. Measurement period adjustments will be recognized in the reporting period in which the adjustment amounts are determined.

The following table summarizes the consideration paid for Novitex and the fair value of the assets acquired and liabilities assumed at the acquisition date on July 12, 2017. Certain estimated values for the acquisition, including goodwill, intangible assets, property, plant and equipment, and deferred income taxes, are not yet finalized and are subject to revision as additional information becomes available and more detailed analyses are completed. The purchase price was allocated based on information available at acquisition date. During the fourth quarter of 2017, the Company

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recorded measurement period adjustments which increased goodwill by $0.9 million, primarily related to updated information related to income taxes.

| | |
|---|---|
| **Assets acquired:** | |
| Cash and equivalents | $ 8,428 |
| Accounts receivable | 87,474 |
| Inventory | 1,245 |
| Prepaid expenses & other | 13,974 |
| Property, plant and equipment, net | 60,657 |
| Identifiable intangible assets, net | 251,060 |
| Deferred charges and other assets | 2,723 |
| Other noncurrent assets | 93 |
| Goodwill | 406,060 |
| Total identifiable assets acquired | $ 831,714 |
| **Liabilities assumed:** | |
| Accounts payable | (29,444) |
| Short-term borrowings and current portion of long-term debt | (11,335) |
| Accrued liabilities | (30,432) |
| Advanced billings and customer deposits | (18,926) |
| Long term debt | (15,704) |
| Deferred taxes | (46,991) |
| Other liabilities | (2,226) |
| Total liabilities assumed | $ (155,058) |
| Total consideration | $ 676,656 |

The identifiable intangible assets include customer relationships, non-compete agreements, internally developed software, and a trademark. Customer relationships and non-compete agreements were valued using the Income Approach, specifically the Multi-Period Excess Earnings method. The trademark was valued using the Income Approach, specifically the Relief-from-Royalty method. Internally developed software was valued based on costs incurred related to Connect Platform. All of these intangibles acquired represent a Level 3 measurement as they are based on unobservable inputs reflecting the Company's management's own assumptions about the inputs used in pricing the asset or liability at fair value.

| | Weighted Average Useful Life (in years) | Fair value |
|---|---|---|
| Trademark - Novitex | 9.5 | $ 18,000 |
| Customer relationships | 16.0 | 230,000 |
| Internally developed software - Connect Platform | 5.0 | 1,710 |
| Non-compete agreements | 1.0 | 1,350 |
| | | $ 251,060 |

As of the date of the Novitex Business Combination, the weighted-average useful life of total identifiable intangible assets acquired in the Novitex Business Combination, excluding goodwill, is 15.4 years.

The Company expects to realize revenue synergies, leverage, brand awareness, stronger margins, greater free cash flow generation, and expand the existing Novitex sales channels, and utilize the existing workforce. The Company also anticipates opportunities for growth through the ability to leverage additional future solutions and capabilities. These factors, among others, contributed to a purchase price in excess of the estimated fair value of Novitex's identifiable net assets assumed, and as a result, the Company has recorded goodwill in connection with this acquisition. The Company engaged a third party valuation firm to aid management in its analyses of the fair value of the assets and liabilities. All estimates, key assumptions, and forecasts were either provided by or reviewed by the Company. Approximately $14.0 million of the goodwill recorded was tax deductible, which was carried over from the tax basis of

the seller. For the year ended December 31, 2018, $677.5 million of revenue and $45.4 million of net loss are included in consolidated revenues and net loss, respectively, for Novitex. These results are included in the ITPS segment.

*Transaction Costs*

The Company incurred approximately $60.0 million in advisory, legal, accounting and management fees in conjunction with the Novitex Business Combination as of December 31, 2017, excluding contract cancellation and advising fees to HGM of $23.0 million described in Note 16. Additionally, $7.6 million was incurred related to equity issuance costs and $40.9 million was incurred in debt issuance costs.

*Restructuring Charges*

In February 2017, management performed a strategic review of human resources at Novitex for the purpose of assessing the business need for their employment and for the purpose of quantifying the synergies resulting from the acquisition. As a result, in July 2017, the Company communicated the termination of certain executives and non-executive Novitex employees.

The Company determined that costs associated with termination benefits should be accounted for separately from the acquisition, as a post-combination expense of the combined entity because the expense was incurred for the benefit of the combined entity. As of July 12, 2017, the Company recorded severance expense in the amount of $4.6 million related to the impacted executives and $0.1 million related to other terminations in the statement of operations. Severance expense was $0.4 million for the year ended December 31, 2018.

**Asterion**

On April 10, 2018, Exela completed the acquisition of Asterion International Group (“Asterion,” the “Asterion Business Combination”), a well-established provider of technology driven business process outsourcing, document management and business process automation across Europe. The purchase price was approximately $19.5 million. The acquisition comes with minimal customer overlap and is strategic to expanding Exela’s European business.

The acquired assets and assumed liabilities of Asterion were recorded at their estimated fair values. The purchase price allocation for Asterion is preliminary for estimates for items such as income taxes and subject to change within the respective measurement period, which will not extend beyond one year from the acquisition date. Measurement period adjustments will be recognized in the reporting period in which the adjustment amounts are determined.

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The following table summarizes the consideration paid for Asterion and the preliminary fair value of the assets acquired and liabilities assumed at the acquisition date on April 10, 2018:

| | |
|---|---|
| **Assets Acquired:** | |
| Cash and cash equivalents | $ 5,595 |
| Accounts receivable | 25,740 |
| Other current assets | 2,282 |
| Inventories, net | 1,137 |
| Property, plant, and equipment, net | 4,747 |
| Deferred income tax assets | 6,316 |
| Other noncurrent assets | 522 |
| Intangible assets, net | 3,525 |
| Goodwill | 1,493 |
| Total identifiable assets acquired | $ 51,357 |
| **Liabilities Assumed:** | |
| Accounts payable | $ (5,596) |
| Income tax payable | (5) |
| Accrued liabilities | (6,593) |
| Accrued compensation and benefits | (7,079) |
| Deferred revenue | (880) |
| Current portion of long term debt | (994) |
| Customer deposits | (462) |
| Pension liability | (7,135) |
| Other long-term liabilities | (1,324) |
| Deferred income tax liabilities | (1,171) |
| Capital lease obligations, net of current maturities | (650) |
| Total liabilities assumed | $ (31,889) |
| Total Consideration | $ 19,468 |

The majority of identifiable intangible assets consisted of customer relationships. Customer relationships were valued using the Income Approach, specifically the Multi-Period Excess Earnings method. This intangible acquired represents a Level 3 measurement as it is based on unobservable inputs reflecting Management's own assumptions about the inputs used in pricing the asset at fair value.

| | Weighted Average Useful Life (in years) | Fair Value |
|---|---|---|
| Customer Relationships | 9.5 | $ 3,516 |

Through the acquisition of Asterion, we expect to leverage brand awareness, strengthen margins, and expand the existing Asterion sales channels. These factors, among others, contributed to a purchase price in excess of the estimated fair value of Asterion's identifiable net assets assumed, and as a result, the Company has recorded goodwill in connection with this acquisition. For the year ended December 31, 2018 Exela recognized $59.7 million in revenue related to Asterion in the Consolidated Statement of Operations.

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**4. Accounts Receivable**

Accounts receivable, net consist of the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Billed receivables | $ 226,252 | $ 199,201 |
| Unbilled receivables | 39,498 | 28,449 |
| Other | 9,421 | 5,779 |
| Less: Allowance for doubtful accounts | (4,359) | (3,725) |
| | $ 270,812 | $ 229,704 |

Unbilled receivables represent balances recognized as revenue that have not been billed to the customer. The Company's allowance for doubtful accounts is based on a policy developed by historical experience and management judgment. Adjustments to the allowance for doubtful accounts may occur based on market conditions or specific client circumstances.

**5. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consist of the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Prepaids | $ 24,790 | $ 22,869 |
| Deposits | 225 | 1,727 |
| | $ 25,015 | $ 24,596 |

**6. Property, Plant and Equipment, Net**

Property, plant, and equipment, which include assets recorded under capital leases, are stated at cost less accumulated depreciation, and amortization, and consist of the following:

| | Estimated Useful Lives (in Years) | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| Land | N/A | $ 6,888 | $ 7,744 |
| Buildings and improvements | 7 - 40 | 20,518 | 18,726 |
| Leasehold improvements | 3 - 12 | 56,589 | 51,257 |
| Vehicles | 5 - 7 | 717 | 870 |
| Machinery and equipment | 5 - 15 | 62,746 | 62,249 |
| Computer equipment and software | 3 - 8 | 130,862 | 116,580 |
| Furniture and fixtures | 5 - 15 | 8,724 | 7,136 |
| | | 287,046 | 264,562 |
| Less: Accumulated depreciation and amortization | | (154,060) | (131,654) |
| Property, plant and equipment, net | | $ 132,986 | $ 132,908 |

Depreciation expense related to property, plant and equipment was $43.1 million, $31.7 million, and $22.8 million for the years ended December 31, 2018, 2017, and 2016, respectively.

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**7. Intangible Assets and Goodwill**

**Intangibles**

Intangible assets are stated at cost or acquisition-date fair value less amortization and impairment and consists of the following:

| | December 31, 2018 | | |
|---|---|---|---|
| | Gross Carrying Amount (a) | Amortization | Intangible Asset, net |
| Customer relationships | $ 507,905 | $ (190,666) | $ 317,239 |
| Developed technology | 89,053 | (85,967) | 3,086 |
| Trade names (b) | 9,400 | (3,100) | 6,300 |
| Outsource contract costs | 46,342 | (27,719) | 18,623 |
| Internally developed software | 36,820 | (6,278) | 30,542 |
| Trademarks | 23,379 | (23,370) | 9 |
| Non compete agreements | 1,350 | (1,350) | — |
| Assembled workforce | 4,473 | — | 4,473 |
| Purchased software | 26,749 | — | 26,749 |
| Intangibles, net | $ 745,471 | $ (338,450) | $ 407,021 |

| | December 31, 2017 | | |
|---|---|---|---|
| | Gross Carrying Amount (a) | Amortization | Intangible Asset, net |
| Customer relationships | $ 504,643 | $ (135,962) | $ 368,681 |
| Developed technology | 89,076 | (77,103) | 11,973 |
| Trade names (c) | 13,100 | — | 13,100 |
| Outsource contract costs | 40,456 | (17,526) | 22,930 |
| Internally developed software | 28,254 | (2,597) | 25,657 |
| Trademarks | 23,370 | (1,446) | 21,924 |
| Non compete agreements | 1,350 | (631) | 719 |
| Intangibles, net | $ 700,249 | $ (235,265) | $ 464,984 |

(a) Amounts include intangibles acquired in the Novitex and Asterion Business Combination. See *Note 3-Business Combinations.*

(b) The carrying amount of trade names for 2018 is net of accumulated impairment losses of $43.1 million, of which $3.7 million was recognized in 2018.

(c) The carrying amount of trade names for 2017 is net of accumulated impairment losses of $39.4 million, of which $39.4 million was recognized in 2017.

In connection with the completion of the annual impairment test as of October 1, 2018, the Company recorded an impairment charge to goodwill and trade names of $44.4 million, including taxes, and $3.7 million. The impairment charges are included within Impairment of intangible assets in the consolidated statement of operations for the year ended December 31, 2018.

In connection with the completion of the annual impairment test as of October 1, 2017, the Company recorded an impairment charge to trade names of $6.3 million. Subsequent to the 2017 annual impairment test, the Company implemented a one year strategy to transition to a unified Exela brand beginning in 2018. As a result, the Company performed a quantitative analysis of its tradenames as of December 31, 2017, and recorded an additional impairment charge of $33.0 million. As part of the impairment analysis completed on December 31, 2017, the Company reconsidered the estimated useful lives of the trademarks, and reduced the estimated useful life to one year. The fair value of the tradenames was determined using the Relief from Royalty Method of the Income Approach. The

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impairment charges resulted in decreases to the carrying values of the ITPS, HS, and LLPS trade names of $23.1 million, $9.6 million, and $6.6 million, respectively, and are included within Impairment of intangible assets in the consolidated statement of operations for the year ended December 31, 2017.

Aggregate amortization expense related to intangibles was $102.3 million, $67.2 million, and $56.8 million for the years ended December 31, 2018, 2017, and 2016, respectively.

Estimated intangibles amortization expense for the next five years and thereafter consists of the following:

| | Estimated Amortization Expense |
|---|---|
| 2019 | $ 64,685 |
| 2020 | 58,363 |
| 2021 | 50,077 |
| 2022 | 44,687 |
| 2023 | 35,929 |
| Thereafter | 147,107 |
| | $ 400,848 |

**Goodwill**

Goodwill by reporting segment consists of the following:

| | Goodwill | Additions | Reductions | Currency translation adjustments | Goodwill(a) |
|---|---|---|---|---|---|
| ITPS | $ 159,394 | $ 406,522 (c) | $ — | $ 299 | $ 566,215 |
| HS | 86,786 | — | — | — | 86,786 |
| LLPS | 127,111 | — | (32,787)(b) | — | 94,324 |
| **Balance as of December 31, 2017** | $ 373,291 | $ 406,522 | $ (32,787) | $ 299 | $ 747,325 |
| ITPS | $ 566,215 | $ 5,580 (d) | $ — | $ (220) | $ 571,575 |
| HS | 86,786 | — | — | — | 86,786 |
| LLPS | 94,324 | — | (44,427)(e) | — | 49,897 |
| **Balance as of December 31, 2018** | $ 747,325 | $ 5,580 | $ (44,427) | $ (220) | $ 708,258 |

(a) The carrying amount of goodwill for all periods presented is net of accumulated impairment losses of $137.9 million.

(b) The reduction in goodwill is due to $30.1 million for impairment recorded in the fourth quarter of 2017 and $2.7 million for the sale of Meridian Consulting Group, LLC in the first quarter of 2017.

(c) Addition to goodwill is primarily the result of the Novitex Business Combination (Refer to note 4), which resulted in $406.1 million of goodwill.

(d) Addition to goodwill due to the Asterion Business Combination (Refer to note 4) and immaterial acquisitions in the third and fourth quarter of 2018.

(e) The reduction in goodwill is due to $44.4 million, including taxes, for impairment recorded in the fourth quarter of 2018.

The Company recorded $406.1 million of goodwill as a result of the allocation of the purchase price between assets acquired and liabilities assumed in the Novitex Business Combination. Of the total amount of goodwill recorded, $47.0 million of goodwill is associated with net deferred tax liabilities recorded in connection with amortizable

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intangible assets acquired in the Novitex Business Combination. For the years ended December 31, 2018 and 2017, due to a decline in revenues and operations for the LLPS reporting unit, the Company recorded an impairment charge of $44.4 million, including taxes, and $30.1 million to the reporting unit's goodwill and trade names.

**8. Accrued Liabilities and Other Long-Term Liabilities**

Accrued liabilities consist of the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Accrued taxes (exclusive of income taxes) | $ 10,606 | $ 9,310 |
| Accrued lease exit obligations | 1,694 | 2,207 |
| Accrued professional and legal fees | 30,522 | 16,529 |
| Deferred rent | 1,421 | 1,204 |
| Accrued interest | 49,071 | 55,102 |
| Accrued transaction costs | 2,250 | 18,232 |
| Other accruals | 19,515 | 1,901 |
| | $115,079 | $104,485 |

Other Long-term liabilities consist of the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Deferred revenue | $ 432 | $ 424 |
| Deferred rent | 8,333 | 7,112 |
| Accrued lease exit obligations | 369 | 1,144 |
| Accrued compensation expense | 2,173 | 2,776 |
| Other | 4,093 | 3,248 |
| | $15,400 | $14,704 |

**9. Long-Term Debt and Credit Facilities**

**Senior Secured Notes**

Upon the closing of the Novitex Business Combination on July 12, 2017, the Company issued $1.0 billion in aggregate principal amount of 10.0% First Priority Senior Secured Notes due 2023 (the “Notes”). The Notes are guaranteed by certain subsidiaries of the Company. The Notes bear interest at a rate of 10.0% per year. The Company pays interest on the Notes on January 15 and July 15 of each year, commencing on January 15, 2018. The Notes will mature on July 15, 2023.

**Debt Refinancing**

Upon the closing of the Novitex Business Combination on July 12, 2017, the $1,050.7 million outstanding balance of SourceHOV related debt facilities and the $420.5 million outstanding balance of Novitex related debt facilities were paid off using proceeds from the Credit Agreement and issuance of the Notes.

In accordance with ASC 470 – Debt – Modifications and Extinguishments, as a result of certain lenders that participated in SourceHOV’s debt structure prior to the refinancing and the Company’s debt structure after the refinancing, it was determined that a portion of the refinancing of SourceHOV’s first lien secured term loan and second lien secured term loan (“Original SourceHOV Term Loans”) would be accounted for as a debt modification, and the remaining would be accounted for as an extinguishment. The Company incurred $28.9 million in debt issuance costs related to the new secured term loan, of which $2.8 million was third party costs. The Company recorded $7.0 million of original issue discount as part of the refinancing. The Company expensed $1.1 million of costs related to the modified debt and capitalized the remaining $27.8 million. The Company wrote off $30.5 million of the unamortized issuance

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costs and discounts associated with the retirement of SourceHOV's credit facilities. The Company retained approximately $3.3 million and $3.5 million of debt issuance costs and debt discounts, respectively, associated with the modified portion of the Original SourceHOV Term Loans that will be amortized over the term of the new term loan, which are presented on the balance sheet as a contra-debt liability. The Company incurred a $5.0 million prepayment penalty related to the Original SourceHOV Term Loans that was recorded as a loss on extinguishment of debt.

The proceeds of the new debt financing were also used to pay fees and expenses incurred in connection with the Novitex Business Combination and for general corporate purposes.

**Senior Credit Facilities**

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the "Credit Agreement") providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, (i) a $350.0 million senior secured term loan maturing July 12, 2023 with an original issue discount ("OID") of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022, none of which is currently drawn. As of December 31, 2018 and 2017 the Company had outstanding irrevocable letters of credit totaling $20.6 million and $20.9 million, respectively, under the senior secured revolving facility.

The Credit Agreement provides for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company's option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity.

**Term Loan Repricing**

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the "Repricing"). The Repricing was accomplished pursuant to a First Amendment to the First Lien Credit Agreement (the "First Amendment"), dated as of July 13, 2018, by and among the Company's subsidiaries Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each "Subsidiary Loan Party" listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto, whereby the Company borrowed $343.4 million of refinancing term loans (the "Repricing Term Loans") to refinance the Company's existing senior secured term loans.

In accordance with ASC 470 – *Debt – Modifications and Extinguishments,* as a result of certain lenders that participated in Exela's debt structure prior to the Term Loan Repricing and the Company's debt structure after the refinancing, it was determined that a portion of the refinancing of Exela's senior secured credit facilities would be accounted for as a debt modification, and the remaining would be accounted for as an extinguishment. The company incurred $1.0 million in new debt issuance costs related to the refinancing, of which $1.0 million was expensed pursuant to modification accounting. The proportion of debt that was extinguished resulted in a write off of previously recognized debt issue costs of $0.1 million. Additionally, for the new lenders who exceeded the 10% test, less than $0.1 million was recorded as additional debt issue costs. All unamortized costs and discounts will be amortized over the life of the new term loan using the effective interest rate of the term loan.

The Repricing Term Loans will bear interest at a rate per annum of, at the Company's option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor, or (b) a base rate determined by reference to

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the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin of 6.50% for LIBOR loans and 5.50% for base rate loans. The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the Credit Agreement. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

**Incremental Term Loan**

On July 13, 2018, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the "Incremental Term Loans") under the First Amendment. The proceeds of the Incremental Term Loans may be used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment. The interest rates applicable to the Incremental Term Loans are the same as those for the Repricing Term Loans.

The Company may voluntarily repay the Repricing Term Loans and the Incremental Term Loans (collectively, the "Term Loans") at any time, without prepayment premium or penalty, except in connection with a repricing event as described in the following sentence, subject to customary "breakage" costs with respect to LIBOR rate loans. Any refinancing of the Term Loans through the issuance of certain debt or any repricing amendment, in either case, that constitutes a "repricing event" applicable to the Term Loans resulting in a lower yield occurring at any time during the first six months after July 13, 2018 will be accompanied by a 1.00% prepayment premium or fee, as applicable.

Other than as described above, the terms, conditions and covenants applicable to the Repricing Term Loans and the Incremental Term Loans are consistent with the terms, conditions and covenants that were applicable to the Existing Term Loans under the First Lien Credit. The Repricing and issuance of the Incremental Term Loans resulted in a partial debt extinguishment, for which Exela recognized $1.1 million in debt extinguishment costs in the third quarter of 2018.

**Long- Term Debt Outstanding**

As of December 31, 2018 and 2017, the following long-term debt instruments were outstanding:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Other (a) | $ 25,321 | 17,534 |
| First lien credit agreement (b) | 335,896 | 308,825 |
| Senior secured notes (c) | 974,443 | 970,300 |
| Total debt | 1,335,660 | 1,296,659 |
| Less: Current portion of long-term debt | (29,237) | (20,565) |
| Long-term debt, net of current maturities | $ 1,306,423 | $ 1,276,094 |

(a) Other debt represents outstanding loan balances associated with various hardware, software purchases, and maintenance along with loans entered into by subsidiaries of the Company.

(b) Net of unamortized original issue discount and debt issuance costs of $8.3 million and $24.5 million as of December 31, 2018 and $9.9 million and $29.1 million as of December 31, 2017.

(c) Net of unamortized original issue discount and debt issuance costs of $18.2 million and $7.3 million as of December 31, 2018 and $21.2 million and $8.5 million as of December 31, 2017.

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As of December 31, 2018, maturities of long-term debt are as follows:

| | Maturity |
|---|---|
| 2019 | $ 29,237 |
| 2020 | 23,156 |
| 2021 | 22,824 |
| 2022 | 19,084 |
| 2023 | 1,299,700 |
| Thereafter | — |
| Total long-term debt | 1,394,001 |
| Less: Unamortized discount and debt issuance costs | (58,341) |
| | $ 1,335,660 |

**10. Income Taxes**

The Company provides for income taxes using an asset and liability approach, under which deferred income taxes are provided based upon enacted tax laws and rates applicable to periods in which the taxes become payable.

For financial reporting purposes, income/ (loss) before income taxes includes the following components:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| United States | $ (173,506) | $ (279,822) | $ (71,171) |
| Foreign | 19,396 | 15,291 | 11,281 |
| | $ (154,110) | $ (264,531) | $ (59,890) |

The provision for federal, state, and foreign income taxes consists of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **Federal** | | | |
| Current | $ 1,308 | $ (722) | $ — |
| Deferred | (1,998) | (59,425) | (8,961) |
| **State** | | | |
| Current | 311 | 1,405 | 830 |
| Deferred | 2,330 | (7,176) | (2,740) |
| **Foreign** | | | |
| Current | 3,435 | 5,794 | 3,112 |
| Deferred | 3,021 | (122) | (4,028) |
| **Income Tax Expense (Benefit)** | $ 8,407 | $ (60,246) | $ (11,787) |

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The differences between income taxes expected by applying the U.S. federal statutory tax rate of 21% and the amount of income taxes provided are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Tax at statutory rate | $ (32,363) | $ (92,586) | $ (20,962) |
| **Add (deduct)** | | | |
| State income taxes | (6,698) | (4,219) | 1,483 |
| Foreign income taxes | 1,235 | (565) | (1,356) |
| Nondeductible transaction costs | — | 27,311 | — |
| Nondeductible goodwill impairment | 9,002 | 10,497 | — |
| Permanent differences | 940 | 438 | 4,405 |
| Changes in valuation allowance | 20,248 | (7,285) | 6,075 |
| Unremitted earnings | 4,735 | — | 1,686 |
| Changes in U.S tax rates | — | (4,784) | — |
| Deemed mandatory repatriation | — | 7,441 | — |
| GILTI Inclusion | 2,289 | — | — |
| Expiration of tax attributes | 8,354 | — | — |
| Other | 665 | 3,506 | (3,118) |
| **Income Tax Expense (Benefit)** | $ 8,407 | $ (60,246) | $ (11,787) |

The Tax Cuts and Jobs Act ("TCJA") was signed by the President of the United States and enacted into law on December 22, 2017. This overhaul of the US tax law made a number of substantial changes, including the reduction of the corporate tax rate from 35% to 21%, establishing a dividends received deduction for dividends paid by foreign subsidiaries to the US, elimination or limitation of certain deductions (interest, domestic production activities and executive compensation), imposing a mandatory tax on previously unrepatriated earnings accumulated offshore since 1986 and establishing global minimum income tax and base erosion tax provisions related to offshore activities and affiliated party payments.

Accounting Standards Codification Topic 740, Income Taxes ("ASC 740") requires companies to account for the tax effects of changes in income tax rates and laws in the period in which legislation is enacted (December 22, 2017). ASC 740 does not specifically address accounting and disclosure guidance in connection with the income tax effects of the TCJA. Consequently, on December 22, 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), to address the application of ASC 740 in the reporting period that includes the date the TCJA was enacted. SAB 118 allows companies a reasonable period of time to complete the accounting for the income tax effects of the TCJA. The measurement period ends when the company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year.

During the year ended December 31, 2018, the Company has completed its accounting for the income tax effects of the TCJA in accordance with its understanding of the TCJA and the guidance available as of the balance sheet date. The Company measures deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Accordingly, the Company's deferred tax assets and liabilities were remeasured to reflect the reduction in the U.S. corporate income tax rate from 35% to 21%, resulting in a $9.4 million provisional tax benefit to Continuing Operations for the year ended December 31, 2017. The tax return for the year ended December 31, 2017 was completed during the SAB 118 measurement period and the Company determined the impact on the remeasurement of deferred tax assets and liabilities to be complete. The Company recognized a measurement period increase to income tax expense of $3.7 million to Continuing Operations related to the remeasurement of deferred tax assets and liabilities for the year ended December 31, 2018.

The Company recognized provisional income tax expense of $9.1 million due on estimated earnings and profits ("E&P") subject to the deemed mandatory repatriation for the year ended December 31, 2017. However, a payable was not recorded as the Company's net operating loss carryforward at December 31, 2017 was utilized to offset the mandatory repatriation tax. On August 1, 2018, the U.S. Treasury Department released proposed regulations addressing the one-time transition tax on undistributed foreign earnings, which was enacted as part of the TCJA. On the basis of

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revised E&P computations that were completed during the SAB 118 measurement period, the Company has determined the transition tax calculation to be complete. The Company recognized an additional measurement-period adjustment of $2.4 million transition tax which was entirely offset by the Company's net operating loss carryforwards at December 31, 2017.

The TCJA subjects a US shareholder to tax on Global Intangible Low-taxed Income ("GILTI") earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for GILTI, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. The Company has elected the accounting policy to recognize the tax expense related to GILTI in the year the tax is incurred as a period expense. At December 31, 2018, the Company has provided $2.3 million for tax impacts of GILTI.

Beginning in 2018, the TCJA also subjects a U.S. shareholder of a controlled foreign corporation to current tax on certain payments from corporations subject to US tax to related foreign persons, also referred to as base erosion and anti-abuse tax (BEAT). The BEAT provisions in the Tax Reform Act eliminates the deduction of certain base-erosion payments made to related foreign corporations, and impose a minimum tax if greater than regular tax. The Company has recorded $1.3 million tax expense related to BEAT for the year ended December 31, 2018.

The components of deferred income tax liabilities and assets are as follows:

| | Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| **Deferred income tax liabilities:** | | |
| Book over tax basis of intangible and fixed assets | $ (94,649) | $ (113,844) |
| Unremitted foreign earnings | (4,735) | — |
| Other, net | $ (4,078) | $ (2,684) |
| Total deferred income tax liabilities | (103,462) | (116,528) |
| **Deferred income tax assets:** | | |
| Allowance for doubtful accounts and receivable adjustments | $ 1,676 | $ 1,401 |
| Inventory | 1,629 | 1,807 |
| Accrued liabilities | 9,260 | 9,586 |
| Net operating loss and tax credit carryforwards | 184,381 | 196,633 |
| Tax deductible goodwill | 3,147 | 3,862 |
| Disallowed interest deduction | 27,005 | — |
| Other, net | 16,841 | 15,518 |
| Total deferred income tax assets | $ 243,939 | $ 228,807 |
| Valuation allowance | (135,465) | (108,622) |
| **Total net deferred income tax assets (liabilities)** | **$ 5,012** | **$ 3,657** |

Gross deferred tax assets are reduced by valuation allowances to the extent the Company determines it is not more-likely-than-not the deferred tax assets are expected to be realized. At December 31, 2018, the Company recognized $135.5 million of valuation allowances against gross deferred tax assets primarily related to disallowed interest deduction, net operating loss and tax credit carryforwards. Of this amount, approximately $76.2 million and $8.7 million of the total valuation allowance was related to U.S. federal and state limitations on the utilization of net operating loss carryforwards due to numerous changes in ownership, respectively. Approximately $21.8 million and $2.6 million of the total valuation allowance was related to U.S. federal and state disallowed interest deduction pursuant to the TCJA. The remaining $26.2 million of the valuation allowance was related to non-limited U.S. and non-US net operating losses and tax credits that are not expected to be realizable.

The net change during the year in the total valuation allowance was an increase of $26.8 million primarily related to the reduction of net regular deferred tax liability and increase of deferred tax assets related to disallowed

interest deduction. The reduction of net deferred tax assets due to the rate revaluation decreased the amount of the valuation allowance by the same amount resulting in no overall net impact to the Company's income tax provision.

Section 382 of the Internal Revenue Code of 1986, as amended (the Code), limits the amount of U.S. tax attributes (net operating loss and tax credit carryforwards) following a change in ownership. The Company has determined that an ownership change occurred under Section 382 on April 3, 2014 and October 31, 2014 for the Pangea group and on October 31, 2014 for the SourceHOV Holdings group ("2014 Reorganization"). The Section 382 limitations significantly limit the pre-acquisition Pangea net operating losses. Accordingly, upon the October 31, 2014 change in control, most of the historic Pangea federal net operating losses were limited and a valuation allowance has been established against the related deferred tax asset. Following the filing of the October 31, 2014, Pangea federal tax returns and further Section 382 analysis, management finalized the amount of the limitation and as a result, approximately $3.5 million of the valuation allowance was released. Management has concluded that the U.S. tax attributes after Section 382 limitations were applied are more likely than not to be realized. With regard to Pangea's foreign subsidiaries, it was determined that most deferred tax assets are not likely to be realized and valuation allowances have been established. The Section 382 limit that applied to the historic SourceHOV LLC group is greater than the net operating losses and tax credits generated in the predecessor periods. Therefore, no additional valuation allowances were established relating to Section 382 limitations other than the pre-2011 Section 382 limitations that applied.

Included in deferred tax assets are federal, foreign and state net operating loss carryforwards, federal general business credit carryforwards and state tax credit carryforwards due to expire beginning in 2019 through 2038. As of December 31, 2018, the Company has federal and state income tax net operating loss (NOL) carryforwards of $680.2 million and $472.7 million, which will expire at various dates from 2019 through 2038. Such NOL carryforwards expire as follows:

| | Federal NOL | State and Local NOL |
|---|---|---|
| 2019 - 2022 | $ 107,956 | $ 29,986 |
| 2023 - 2027 | 139,102 | 79,111 |
| 2028 - 2037 | 433,147 | 363,616 |
| | $ 680,205 | $ 472,713 |

As of December 31, 2018, the Company has foreign net operating loss carryforwards of $35.8 million, $4.1 million of which were generated by BancTec Holding N.V. and BancTec B.V., and will expire at various dates from 2021 through 2024, and $0.8 million of which were generated by Exela Poland, and will expire in 2023, and the rest of which can be carried forward indefinitely.

Since the 2014 Reorganization did not result in a new tax basis of assets and liabilities for the Company, some of the goodwill continues to be deductible over the remaining amortization period for tax purposes. At December 31, 2018, approximately $52.3 million of the Company goodwill is tax deductible, $22.8 million of which is carried over from the 2014 Reorganization. Additionally, the Company has tax deductible goodwill of $21.7 million in connection with the TransCentra acquisition, and $7.8 million in connection with the Novitex acquisition. These amounts was related to the tax basis carried over from the seller.

The Company adopted the provision of accounting for uncertainty in income taxes in the Topic of the ASC 740. ASC 740 clarifies the accounting for uncertain tax positions in the Company's financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on tax returns. The total amount of unrecognized tax benefits at December 31, 2018 is $1.5 million, and if recognized $0.7 million would benefit the effective tax rate. Total accrued interest and penalties recorded on the Consolidated Balance Sheet were $2.3 million and $3.0 million at December 31, 2018 and 2017, respectively. The total amount of interest and penalties recognized in the Income tax expense at December 31, 2018 was $(0.4) million. The Company does not anticipate a significant change in the amount of unrecognized tax benefits during 2018.

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The following is a tabular reconciliation of the total amounts of unrecognized tax benefits:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **Unrecognized tax benefits—January 1** | $ 1,047 | $ 999 | $ 1,287 |
| Gross increases—tax positions in prior period | 301 | 48 | — |
| Gross decreases—tax positions in prior period | — | — | (31) |
| Gross increases—tax positions in current period | 128 | — | 45 |
| Settlement | — | — | (103) |
| Lapse of statute of limitations | — | — | (199) |
| **Unrecognized tax benefits—December 31** | $ 1,476 | $ 1,047 | $ 999 |

The Company files income tax returns in the U.S. and various state and foreign jurisdictions. The statute of limitations for U.S. purposes is open for tax years ending on or after December 31, 2014, However, NOLs generated in years prior to 2014 and utilized in future periods may be subject to examination by U.S. tax authorities. State jurisdictions that remain subject to examination are not considered significant. The Company has significant foreign operations in India and Europe. The Company may be subject to examination by the India tax authorities for tax periods ending on or after March 31, 2012.

During the year ended December 31, 2018, the Company completed the calculation of the amount for the deemed mandatory repatriation of its total post-1986 earnings and profits that were previously deferred from US income taxes. The deemed mandatory repatriation was based in part on the amount of untaxed earnings held in cash and other specified assets. Although the adoption of a territorial tax system allows for the repatriation of foreign earnings after December 31, 2017 without incurring U.S. corporate income tax, withholding taxes by the foreign jurisdictions will be applied to any dividends remitted to the U.S. At December 31, 2018, the Company has not changed its prior indefinite reinvestment assertion on undistributed earnings related to certain foreign subsidiaries. Accordingly, no deferred taxes have been provided for withholding taxes or other taxes that would result upon repatriation of approximately $109.7 million of undistributed earnings from these foreign subsidiaries as those earnings continue to be permanently reinvested. However, the Company does not indefinitely reinvest earnings in Canada, China, India, Mexico and Philippines. At December 31, 2017, the Company did not obtain sufficient information, and therefore did not provide a provisional estimate to calculate the foreign withholding taxes on the undistributed earnings of these jurisdictions. During the fourth quarter of 2018, the Company has completed the calculation and recorded $4.7 million of foreign withholding taxes on the undistributed earnings of these jurisdictions pursuant to SAB 118.

## 11. Employee Benefit Plans

### German Pension Plan

The Company's subsidiary in Germany provides pension benefits to eligible retirees. Employees eligible for participation includes all employees who started working for the Company prior to September 30, 1987 and have finished a qualifying period of at least 10 years. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan. The German pension plan is an unfunded plan and therefore has no plan assets.

### U.K. Pension Plan

The Company's subsidiary in the United Kingdom provides pension benefits to eligible retirees and eligible dependents. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to October 2001. A retirement pension or a lump-sum payment may be paid dependent upon length of service at the mandatory retirement age. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

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The expected rate of return assumptions for plan assets relate solely to the UK plan and are based mainly on historical performance achieved over a long period of time (15 to 20 years) encompassing many business and economic cycles. The Company assumed a weighted average expected long-term rate on plan assets of 3.87%.

**Norway Pension Plan**

The Company's subsidiary in Norway provides pension benefits to eligible retirees and eligible dependents. Employees eligible for participation include all employees who were more than three years from retirement prior to March 2018. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan. The expected rate of return assumptions for plan assets relate solely to the Norway plan and are based mainly on historical performance achieved over a long period of time (10 to 20 years) encompassing many business and economic cycles. The Company assumed a weighted average expected long-term rate on plan assets of 4.3%.

**Asterion Pension Plan**

The Company acquired in 2018 through the Asterion Business Combination pension benefits to eligible retirees and eligible dependents. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to July 2003. A retirement pension or a lump-sum payment may be paid dependent upon length of service at the mandatory retirement age. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

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**Funded Status**

The change in benefit obligations, the change in the fair value of the plan assets and the funded status of the Company's pension plans (except for the German pension plan which is unfunded) and the amounts recognized in the Company's consolidated financial statements are as follows:

| | Year ended December, | |
|---|---|---|
| | 2018 | 2017 |
| Change in Benefit Obligation: | | |
| Benefit obligation at beginning of period | $ 91,514 | $ 82,320 |
| Additional obligation due to acquisition | 5,317 | — |
| Service cost | 82 | 8 |
| Interest cost | 2,319 | 2,288 |
| Actuarial loss (gain) | (5,643) | 1,021 |
| Plan amendments | 2,490 | — |
| Benefits paid | (1,436) | (1,797) |
| Foreign-exchange rate changes | (5,113) | 7,674 |
| Benefit obligation at end of year | $ 89,530 | $ 91,514 |
| Change in Plan Assets: | | |
| Fair value of plan assets at beginning of period | $ 64,886 | $ 52,538 |
| Additional assets due to acquisition | 2,189 | — |
| Actual return on plan assets | (1,434) | 6,579 |
| Employer contributions | 2,477 | 2,297 |
| Benefits paid | (1,415) | (1,782) |
| Foreign-exchange rate changes | (3,734) | 5,254 |
| Fair value of plan assets at end of year | 62,969 | 64,886 |
| Funded status at end of year | $ (26,561) | $ (26,628) |
| Net amount recognized in the Consolidated Balance Sheets: | | |
| Accrued compensation and benefits (a) | $ (1,811) | $ (1,551) |
| Pension liability (b) | $ (24,750) | $ (25,077) |
| Amounts recognized in accumulated other comprehensive loss, net of tax consist of: | | |
| Net actuarial loss | (9,301) | (11,054) |
| Net amount recognized in accumulated other comprehensive loss, net of tax | $ (9,301) | $ (11,054) |
| Plans with underfunded or non-funded accumulated benefit obligation: | | |
| Aggregate projected benefit obligation | $ 89,530 | $ 91,514 |
| Aggregate accumulated benefit obligation | $ 89,530 | $ 91,514 |
| Aggregate fair value of plan assets | $ 62,969 | $ 64,886 |

(a) Germany pension, represents only a portion of the accrued compensation and benefits balance presented in the consolidated balance sheet.

(b) Consolidated balance of $25.3 million and $25.5 million includes UK and Asterion pension plans of $24.8 million and $25.1 million, for the years ended December 31, 2018 and 2017, respectively, and minimum regulatory benefit for a Philippines legal entity of $0.5 million. Pension balances for the Germany and Norway plans of $2.3 million are recorded in accrued retirement.

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**Amounts in Accumulated Other Comprehensive Loss Expected to be Recognized in Net Periodic Benefit Costs in 2019**

The liability recorded on the Company's consolidated balance sheets representing the net unfunded status of this plan is different than the cumulative expense recognized for this plan. The difference relates to losses that are deferred and that will be amortized into periodic benefit costs in future periods. These unamortized amounts are recorded in Accumulated Other Comprehensive Loss in the consolidated balance sheets.

As of December 31, 2018, the estimated pre-tax amount that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year will be net actuarial loss of $1.9 million and prior service cost of $0.1 million.

**Tax Effect on Accumulated Other Comprehensive Loss**

As of December 31, 2018 and 2017, the Company recorded actuarial losses of $9.3 million and $11.1 million, respectively, which is net of a deferred tax benefit of $1.7 million and $2.0 million, respectively.

**Pension and Postretirement Expense**

The components of the net periodic benefit cost are as follows:

| | Year ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Service cost | $ 82 | $ 8 | $ 11 |
| Interest cost | 2,351 | 2,288 | 2,667 |
| Expected return on plan assets | (1,862) | (2,392) | (2,623) |
| Amortization: | | | |
| Amortization of prior service cost | 139 | (134) | (141) |
| Amortization of net (gain) loss | — | 2,063 | 891 |
| Net periodic benefit cost | $ 710 | $ 1,833 | $ 805 |

**Valuation**

The Company uses the corridor approach and projected unit credit method in the valuation of its defined benefit plans for the UK, Germany, and Norway respectively. The corridor approach defers all actuarial gains and losses resulting from variances between actual results and economic estimates or actuarial assumptions. For defined benefit pension plans, these unrecognized gains and losses are amortized when the net gains and losses exceed 10% of the greater of the market-related value of plan assets or the projected benefit obligation at the beginning of the year. The amount in excess of the corridor is amortized over 15 years. Similarly, the Company used the Projected Unit Credit Method for the German Plan, and evaluated the assumptions used to derive the related benefit obligations consisting primarily of financial and demographic assumptions including commencement of employment, biometric decrement tables, retirement age, staff turnover. The projected unit credit method determines the present value of the Company's defined benefit obligations and related service costs by taking into account each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately in building up the final obligation. Benefit is attributed to periods of service using the plan's benefit formula, unless an employee's service in later years will lead to a materially higher of benefit than in earlier years, in which case a straight-line basis is used.

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The following tables set forth the principal actuarial assumptions used to determine benefit obligation and net periodic benefit costs:

| | December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| | UK | | Germany | | Norway | | Asterion | |
| Weighted-average assumptions used to determine benefit obligations: | | | | | | | | |
| Discount rate | 2.80 % | 2.50 % | 1.90 % | 1.70 % | 2.60 % | 2.40 % | 1.80 % | N/A |
| Rate of compensation increase | N/A | N/A | N/A | N/A | 1.75 % | 1.50 % | 2.50 % | N/A |
| Weighted-average assumptions used to determine net periodic benefit cost: | | | | | | | | |
| Discount rate | 2.10 % | 2.70 % | 1.90 % | N/A % | 2.60 % | 2.40 % | 1.80 % | N/A |
| Expected asset return | 3.87 % | 4.34 % | 3.68 % | N/A % | 4.30 % | 4.10 % | 1.80 % | N/A |
| Rate of compensation increase | N/A | N/A | N/A | N/A | 1.75 % | 1.50 % | 2.50 % | N/A |

The Germany plan is an unfunded plan and therefore has no plan assets. The expected rate of return assumptions for plan assets relates solely to the UK plan and are based mainly on historical performance achieved over a long period of time (10 to 20 years) encompassing many business and economic cycles. Adjustments, upward and downward, may be made to those historical returns to reflect future capital market expectations; these expectations are typically derived from expert advice from the investment community and surveys of peer company assumptions.

The Company assumed a weighted average expected long-term rate of return on plan assets for the overall scheme of 3.87%. The Company's expected rate of return for equities is derived by applying an equity risk premium to the expected yield on the fixed-interest 15-year government gilts. The Company evaluated a number of indicators including prevailing market valuations and conditions, corporate earnings expectations, and the estimates of long-term economic growth and inflations to derive the equity risk premium. The expected return on the gilts and corporate bonds typically reflect market conditions at the balance sheet date, and the nature of the bond holdings.

The discount rate assumption was developed considering the current yield on an investment grade non-gilt index with an adjustment to the yield to match the average duration of the index with the average duration of the plan's liabilities. The index utilized reflected the market's yield requirements for these types of investments.

The inflation rate assumption was developed considering the difference in yields between a long-term government stocks index and a long-term index-linked stocks index. This difference was modified to consider the depression of the yield on index-linked stocks due to the shortage of supply and high demand, the premium for inflation above the expectation built into the yield on fixed-interest stocks and the government's target rate for inflation (CPI) at 2.1%. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which, due to the time scale covered, may not necessarily be borne out in practice.

**Plan Assets**

The investment objective for the plan is to earn, over moving fifteen to twenty year periods, the long-term expected rate of return, net of investment fees and transaction costs, to satisfy the benefit obligations of the plan, while at the same time maintaining sufficient liquidity to pay benefit obligations and proper expenses, and meet any other cash needs, in the short-to medium-term.

The Company's investment policy related to the defined benefit plan is to continue to maintain investments in government gilts and highly rated bonds as a means to reduce the overall risk of assets held in the fund. No specific targeted allocation percentages have been set by category, but are at the direction and discretion of the plan trustees. During 2018 and 2017, all contributions made to the fund were in these categories.

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The weighted average allocation of plan assets by asset category is as follows:

| | December 31, 2018 | 2017 | 2016 |
|---|---|---|---|
| U.S. and international equities | 28.0 % | 45.0 % | 42.0 % |
| UK government and corporate bonds | 10.0 | 20.0 | 21.0 |
| Diversified growth fund | 40.0 | 35.0 | 37.0 |
| Liability Driven Investments | 22.0 | N/A | N/A |
| Total | 100.0 % | 100.0 % | 100.0 % |

The following tables set forth, by category and within the fair value hierarchy, the fair value of the Company's pension assets at December 31, 2018 and 2017:

| | December 31, 2018 Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Asset Category: | | | | |
| Cash | $ 135 | $ 135 | $ — | $ — |
| Equity Funds: | — | | | |
| U.S. | 10,654 | — | 10,654 | — |
| International | 7,102 | — | 7,102 | — |
| Fixed Income Securities: | — | | | |
| Corporate bonds | 6,270 | — | 6,270 | — |
| Other investments: | — | | | |
| Diversified growth fund | 25,677 | — | 25,677 | — |
| Liability Driven Investments | 13,939 | — | 13,939 | — |
| Total fair value | $ 63,777 | $ 135 | $ 63,642 | $ — |

| | December 31, 2017 Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Asset Category: | | | | |
| Cash | $ 256 | $ 256 | $ — | $ — |
| Equity Funds: | | | | |
| U.S. | 17,307 | — | 17,307 | — |
| International | 11,539 | — | 11,539 | — |
| Fixed Income Securities: | | | | |
| UK Gilts | 12,884 | — | 12,884 | — |
| Other investments: | | | | |
| Diversified growth fund | 22,900 | — | 22,900 | — |
| Total fair value | $ 64,886 | $ 256 | $ 64,630 | $ — |

The Company identified an immaterial error in the footnotes to the previously issued financial statements as of December 31, 2017. The previously issued financial statements incorrectly reflected investments in Equities, Fixed Income Securities, and Other investments as of December 31, 2017 as Level 1 assets. These amounts have been properly classified as Level 2 assets within the fair value hierarchy table above.

The plan assets for the UK are categorized as follows, as applicable:

Level 1: Any asset for which a unit price is available and used without adjustment, cash balances, etc.

Level 2: Any asset for which the amount disclosed is based on market data, for example a fair value measurement based on a present value technique (where all calculation inputs are based on data).

Level 3: Other assets. For example, any asset value with a fair value adjustment made not based on available indices or data.

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**Employer Contributions**

The Company's funding is based on governmental requirements and differs from those methods used to recognize pension expense. The Company made contributions of $3.1 million and $2.3 million to its pension plans during the years ended December 31, 2018 and 2017, respectively. The Company has fully funded the pension plans for 2018 based on current plan provisions. The Company expects to contribute $2.2 million to the pension plans during 2019, based on current plan provisions.

**Estimated Future Benefit Payments**

The estimated future pension benefit payments expected to be paid to plan participants are as follows:

| | Estimated Benefit Payments |
|---|---|
| **Year ended December 31,** | |
| 2019 | $ 2,193 |
| 2020 | 1,720 |
| 2021 | 1,736 |
| 2022 | 2,069 |
| 2023 | 1,943 |
| 2024 - 2028 | 15,838 |
| Total | $ 25,499 |

**12. Commitments and Contingencies**

**Litigation**

The Company is, from time to time, involved in certain legal proceedings, inquiries, claims and disputes, which arise in the ordinary course of business. Although management cannot predict the outcomes of these matters, management does not believe these actions will have a material, adverse effect on the Company's consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

**Appraisal Demand**

On September 21, 2017, former stockholders of SourceHOV, who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the Novitex Business Combination, which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their shares at the time of the Novitex Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). Discovery in the Appraisal Action is not yet complete. Trial is currently scheduled for June 2019. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate any loss or range of loss that may arise from the Appraisal Action. Pursuant to the terms of the Novitex Business Combination Agreement, if such appraisal rights are perfected, a corresponding portion of shares of our Common Stock issued to Ex-Sigma 2 LLC, our principal stockholder, will be forfeited at such time as the PIPE Financing (as defined in the Consent, Waiver and Amendment dated June 15, 2017) is repaid. The Company intends to vigorously defend against the Appraisal Action.

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**Lease Commitments**

The Company leases various office buildings, machinery, equipment, and vehicles. Future minimum lease payments under capital leases, included in long-term obligations, and non-cancelable operating leases at December 31, 2018 are as follows:

| | Capital Leases | Operating Lease | Total |
|---|---|---|---|
| 2019 | $ 20,080 | $ 38,057 | $ 58,137 |
| 2020 | 11,851 | 29,346 | 41,197 |
| 2021 | 9,018 | 22,239 | 31,257 |
| 2022 | 4,169 | 16,782 | 20,951 |
| 2023 | 2,244 | 12,302 | 14,546 |
| Thereafter | 3,617 | 18,874 | 22,491 |
| Total minimum lease payments | $ 50,979 | $ 137,600 | $188,579 |
| Less: Amounts representing interest | (6,743) | | |
| Total net minimum lease payments | 44,236 | | |
| Less: Current portion of obligations under capital leases | (17,498) | | |
| Long-term portion of obligations under capital leases | $ 26,738 | | |

Rent expense for all operating leases was $83.8 million, $60.0 million, and $36.7 million for the years ended December 31, 2018, 2017, and 2016, respectively.

**Contract-Related Contingencies**

The Company has certain contingent liabilities that arise in the ordinary course of providing services to its customers. These contingencies are generally the result of contracts that require the Company to comply with certain performance measurements or the delivery of certain services by a specified deadline. The Company believes the liability, if any, incurred under these contract provisions will not have a material adverse effect on the Company's consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

The Company has certain contingent liabilities related to prior acquisitions. The Company adjusts these liabilities to fair value at each reporting period. The Company had a $0.7 million liability related to HandsOn Global Management's ("HGM") acquisition of BancTec, Inc. for both December 31, 2018 and 2017, respectively. The fair value is determined using an earn out method based on the agreement terms. This fair value measurement represents a Level 3 measurement as it is based on significant inputs not observable in the market. Significant judgment is employed in determining the appropriateness of these assumptions.

**13. Fair Value Measurement**

**Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis**

The carrying amount of assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable approximated their fair value as of December 31, 2018 and December 31, 2017 due to the relative short maturity of these instruments. Management estimates the fair values of the secured term loan and secured notes at approximately 98.0% and 95.5%, respectively, of the respective principal balance outstanding as of December 30, 2018. The carrying value approximates the fair value for the long-term debt. The Company acquired $11.7 million of other long-term debt from Novitex (*refer to Note 3*), which primarily relates to the financing of equipment. Other debt represents the Company's outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company and as such, the cost incurred would approximate fair value. Property and equipment, intangible assets, capital lease obligations, and goodwill are not required to be re-measured to fair value on a recurring basis. These assets are evaluated for impairment if certain triggering events occur. If such evaluation indicates that impairment exists, the respective asset is written down to its fair value.

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The Company determined the fair value of its long-term debt using Level 2 inputs including the recent issue of the debt, the Company's credit rating, and the current risk-free rate. The Company's contingent liabilities related to prior acquisitions are re-measured each period and represent a Level 2 measurement as it is based on using an earn out method based on the agreement terms.

The Company determined the fair value of the interest rate swap using Level 2 inputs. The Company uses closing prices as provided by a third party institution. *(Refer to Note 2 - Basis of Presentation and Summary of Significant Accounting Policies).*

The following table provides the carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2018 and December 31, 2017:

| As of December 31, 2018 | Carrying Amount | Fair Value | Fair Value Measurements Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| Recurring and nonrecurring assets and liabilities: | | | | | |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |
| Long-term debt | 1,306,423 | 1,316,306 | — | 1,316,306 | — |
| Interest rate swap | — | — | — | — | — |
| Goodwill | 708,258 | 708,258 | — | — | 708,258 |
| **As of December 31, 2017** | **Carrying Amount** | **Fair Value** | **Fair Value Measurements Level 1** | **Level 2** | **Level 3** |
| Recurring and nonrecurring assets and liabilities: | | | | | |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |
| Long-term debt | 1,276,094 | 1,308,478 | — | 1,308,478 | — |
| Interest rate swap | 1,297 | 1,297 | — | 1,297 | — |
| Goodwill | 747,325 | 747,325 | — | — | 747,325 |

The significant unobservable inputs used in the fair value of the Company's acquisition contingent liabilities are the discount rate, growth assumptions, and revenue thresholds. Significant increases (decreases) in the discount rate would have resulted in a lower (higher) fair value measurement. Significant increases (decreases) in the forecasted financial information would have resulted in a higher (lower) fair value measurement. For all significant unobservable inputs used in the fair value measurement of the Level 3 liabilities, a change in one of the inputs would not necessarily result in a directionally similar change in the other based on the current level of billings.

The following table reconciles the beginning and ending balances of net assets and liabilities classified as Level 3 for which a reconciliation is required:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Balance as of January 1, | $ 721 | $ 721 |
| Payments/Reductions | — | — |
| Balance as of December 31, | $ 721 | $ 721 |

During 2018 and 2017, goodwill impairment charges totaling $44.4 million, including taxes, were recognized within our LLPS segment. See Note 7.

**14. Stock-Based Compensation**

At Closing, SourceHOV had 24,535 restricted stock units ("RSUs") outstanding under its 2013 Long Term Incentive Plan ("2013 Plan"). Simultaneous with the Closing, the 2013 Plan, as well as all vested and unvested RSUs under the 2013 Plan, were assumed by Ex-Sigma, LLC ("Ex-Sigma"), an entity formed by the former SourceHOV equity

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holders, which is also the Company's principal stockholder. In accordance with U.S. GAAP, the Company will continue to incur compensation expense related to the 9,880 unvested RSUs as of July 12, 2017 on a straight-line basis until fully vested, as the recipients of the RSUs are employees of the Company. Subject to continuous employment and other terms of the 2013 Plan, all remaining unvested RSU's with initial vesting period of 3 or 4 years will vest in April 2019. As of December 31, 2018 there are 2,675 nonvested shares related to the 2013 Plan with a weighted average remaining contractual life of .33 years and a weighted average aggregate intrinsic value of $1,633.

**Exela 2018 Stock Incentive Plan**

On December 20, 2017, Exela's 2018 Stock Incentive Plan (the "2018 Plan") became effective. The 2018 Plan provides for the grant of incentive and nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, performance awards, and other stock-based compensation to eligible participants. Under the 2018 Plan, stock options are granted at a price per share not less than 100% of the fair market value per share of the underlying stock at the grant date. The Company determines the vesting period for each option award on the grant date, and the options generally expire 10 years from the grant date. The Company will be authorized to issue up to 8,196,482 shares of Common Stock.

A summary of the status of restricted stock units related to the 2018 Plan as of December 31, 2018 is presented as follows:

| | Number of Shares | Weighted Average Grant Date Fair Value | Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value ($) |
|---|---|---|---|---|
| Shares granted | 1,020,220 | 5.86 | — | — |
| Shares forfeited | — | — | — | — |
| Shares vested | (126,923) | — | — | — |
| Nonvested as of December 31, 2018 | 893,297 | $ 5.86 | 0.76 | $ 5,239 |

**Options**

Options are granted with an exercise price not less than fair market value on the date of grant and expire no later than ten years after the date of grant. Options granted under the 2018 Plan generally require no less than a two or four year ratable vesting period. The weighted average remaining contractual life for stock options is 9.68 years. Stock option activity in the first twelve months of 2018 is summarized in the following table:

| | Outstanding | Weighted Average Exercise Price | Average Remaining Vesting Period (Years) | Aggregate Intrinsic Value ($) |
|---|---|---|---|---|
| Granted | 3,570,300 | $ 6.06 | — | — |
| Exercised | — | — | — | — |
| Canceled | — | — | — | — |
| Expired | — | — | — | — |
| Balance at December 31, 2018 | 3,570,300 | $ 6.06 | 2.92 | $ 9,590 |

As of December 31, 2018, there was approximately $13.9 million of total unrecognized compensation expense related to non-vested awards for the 2013 Plan and 2018 Plan, which will be recognized over the respective service period. Stock-based compensation expense is recorded within Selling, general, and administrative expenses. The Company incurred total compensation expense of $7.6 million, $6.7 million, and $7.1 million related to the 2013 Plan and 2018 Plan awards for the years ended December 31, 2018, 2017, and 2016.

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**15. Stockholders' Equity**

The following description summarizes the material terms and provisions of the securities that the Company has authorized.

*Common Stock*

The Company is authorized to issue 1,600,000,000 shares of Common Stock, par value $0.0001 per share. Except as otherwise required by law or as otherwise provided in any certificate of designation for any series of preferred stock or as provided for in the Director Nomination Agreements, the holders of Exela Common Stock possess all voting power for the election of Exela's directors and all other matters requiring stockholder action and will at all times vote together as one class on all matters submitted to a vote of Exela stockholders. Holders of Exela Common Stock are entitled to one vote per share on matters to be voted on by stockholders. Holders of Exela Common Stock will be entitled to receive such dividends and other distributions, if any, as may be declared from time to time by the board of directors in its discretion out of funds legally available therefore and shall share equally on a per share basis in such dividends and distributions. The holders of the Common Stock have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the common stock. In January 2018, 1,625,000 shares of Series A Preferred Stock were converted into 1,987,767 shares of common stock. As of December 31, 2018, there were 152,692,140 shares of Common Stock issued and 150,142,955 shares outstanding.

*Preferred Stock*

The Company is authorized to issue 20,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the board of directors. At December 31, 2018, the Company had 4,569,233 shares of Series A Preferred Stock outstanding. The par value of the Series A Preferred Stock is $0.0001 per share. Each share of Series A Preferred Stock will be convertible at the holder's option, at any time after the six month anniversary and prior to the third anniversary of the issue date, initially into 1.2226 shares of Exela Common Stock (assuming a conversion price of $8.80 per share and a third anniversary expected liquidation preference of $10.75911 per the below). Due to a Fundamental Change (as defined in the Certificate of Designations, Preferences, Rights and Limitations of Series A Preferred Stock) that occurred on August 1, 2017 as described in the beneficial conversion feature section of Note 2, holders of Series A Preferred Stock were able to convert their shares prior to the six month anniversary. Based on such assumed conversion rate, approximately 11,240,869 shares of Exela Common Stock would be issuable upon conversion of all of the shares of Series A Preferred Stock at the six month anniversary of the issue date. As of December 31, 2018, an additional 5,586,344 shares of Common Stock are issuable upon conversion of the remaining 4,569,233 shares of Series A Preferred Stock.

Holders of the Series A Preferred Stock will be entitled to receive cumulative dividends at a rate per annum of 10% of the Liquidation Preference per share of Series A Preferred Stock, paid or accrued quarterly in arrears. From the issue date until the third anniversary of the issue date, the amount of all accrued but unpaid dividends on the Series A Preferred Stock will be added to the Liquidation Preference without any action by the Company's board of directors. For the year ended December 31, 2018, this amount was $3.7 million as reflected on the Consolidated Statement of Operations. The cumulative accrued but unpaid dividends of the Series A Preferred Stock since their inception on July 12, 2017 is $6.1 million. The per share average of cumulative preferred dividends is 0.8 dollars.

Following the third anniversary of the issue date, dividends on the Series A Preferred Stock will be accrued by adding to the Liquidation Preference or paid in cash, or a combination thereof. In addition, holders of the Series A Preferred Stock will participate in any dividend or distribution of cash or other property paid in respect of the Common Stock pro rata with the holders of the Common Stock (other than certain dividends or distributions that trigger an adjustment to the conversion rate, as described in the Certificate of Designations), as if all shares of Series A Preferred Stock had been converted into Common Stock immediately prior to the date on which such holders of the Common Stock became entitled to such dividend or distribution.

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*Treasury Stock*

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires in 24 months. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. We purchased 2,499,885 shares in 2018 at an average share price of $4.71. As of December 31, 2018, 2,549,185 shares had been repurchased under the share buyback program and they are held in treasury stock. The Company records treasury stock using the cost method.

*Warrants*

At December 31, 2018, there were a total of 34,988,302 warrants outstanding. As part of its IPO, Quinpario had issued 35,000,000 units including one share of Common Stock and one warrant. The warrants are traded on the OTC Bulletin board as of December 31, 2018.

Each warrant entitles the holder to purchase one-half of one share of Common Stock at a price of $5.75 per half share ($11.50 per whole share). Warrants may be exercised only for a whole number of shares of Common Stock. No fractional shares will be issued upon exercise of the warrants. Each warrant is currently exercisable and will expire July 12, 2022 (five years after the completion of the Novitex Business Combination), or earlier upon redemption.

The Company may call the warrants for redemption at a price of $0.01 per warrant upon a minimum of 30 days' prior written notice of redemption, if, and only if, the last sales price of the shares of Common Stock equals or exceeds $24.00 per share for any 20 trading days within a 30 trading day period (the "30-day trading period") ending three business days before the Company sends the notice of redemption, and if, and only if, there is a current registration statement in effect with respect to the shares of Common Stock underlying such warrants commencing five business days prior to the 30-day trading period and continuing each day thereafter until the date of redemption.

**16. Related-Party Transactions**

*Leasing Transactions*

Certain operating companies lease their operating facilities from HOV RE, LLC and HOV Services Limited, which are affiliates through common interest held by Ex-Sigma 2 LLC, our largest stockholders. The rental expense for these operating leases was $0.7 million, $0.7 million, and $0.6 million for the years ended December 31, 2018, 2017, and 2016, respectively.

*Consulting Agreements*

The Company receives services from Oakana Holdings, Inc. The Company and Oakana Holdings, Inc. are related through a family relationship between certain stockholders and the president of Oakana Holdings, Inc. The expense recognized for these services was approximately $0.2 million and $0.1 million for the years ended December 31, 2018 and 2017, respectively. For the year ended December 31, 2016, the Company incurred no expenses for these services.

The Company receives consulting services from Shadow Pond, LLC. Shadow Pond, LLC is wholly-owned and controlled by Vik Negi, our Executive Vice President Treasury and Business Affairs. The consulting arrangement was established to compensate Mr. Negi for his services to the Company prior to becoming an employee. The expense recognized for these services was approximately $0.1 million, $0.5 million, and $0.5 million for the years ended December 31, 2018, 2017 and 2016, respectively. The consulting arrangement with Shadow Pond, LLC terminated and Mr. Negi continues to provide services as an employee of the Company.

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*Relationship with HandsOn Global Management*

The Company incurred management fees to HGM, SourceHOV's former owner, of $6.0 million for each of the years ended December 31, 2017 and 2016. The contract with HGM was terminated upon consummation of the Novitex Business Combination, and no fees were payable after July 12, 2017.

The Company incurred reimbursable travel expenses to HGM of less than $0.1 million $0.9 million and $1.7 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Pursuant to a master agreement dated January 1, 2015 between Rule 14, LLC and SourceHOV, the Company incurs marketing fees to Rule 14, LLC, a portfolio company of HGM. Similarly, SourceHOV is party to ten master agreements with entities affiliated with HGM's ventures portfolio, each of which were entered into during 2015 and 2016. Each master agreement provides SourceHOV with free use of technology and includes a reseller arrangement pursuant to which SourceHOV is entitled to sell these services to third parties. Any revenue earned by SourceHOV in such third-party sale is shared 75%/25% with each of HGM's venture affiliates in favor of SourceHOV. The brands Zuma, Athena, Peri, BancMate, Spring, Jet, Teletype, CourtQ and Rewardio are part of the HGM ventures portfolio. SourceHOV has the license to use and resell such brands, as described therein. We incurred fees relating to these agreements of $0.6 million, $0.6 million, and $0.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

During 2017, the Company incurred contract cancellation and advising fees to HGM of $23.0 million, $10.0 million of which was paid by the issuance of 1,250,000 shares of Common Stock, relating to the Novitex Business Combination. No such fees were incurred in 2018.

*Relationship with HOV Services, Ltd.*

HOV Services, Ltd., a former stockholder of SourceHOV who currently owns equity interest in the Company through Ex-Sigma, provides the Company data capture and technology services. The expense recognized for these services was approximately $1.6 million, $1.7 million, and $1.7 million for the years ended December 31, 2018, 2017, and 2016, respectively, and is included in cost of revenue in the consolidated statements of operations.

*Relationship with Apollo Global Management, LLC*

The Company provides services to and receives services from certain companies controlled by investment funds affiliated with Apollo Global Management, LLC ("Apollo"). Investment funds affiliated with Apollo also control one of our largest stockholders, Novitex Holdings, which has the right to designate two of the Company's directors and has certain other consent rights under the Director Nomination Agreement. For the years ended December 31, 2018 and 2017 there were related party revenues of $0.6 million and $0.3 million, respectively, for services received from an Apollo affiliated company with a common Apollo designated director. For the year ended December 31, 2016, the Company incurred no expenses for these services.

On January 18, 2017, Novitex Solutions entered into a master purchase and professional services agreement with Caesars Enterprise Services, LLC (''Caesars''), a portion of which is owned by an affiliate of Apollo. Pursuant to this master purchase and professional services agreement, Novitex Solutions provides managed print services to Caesars, including general equipment operation, supply management, support services and technical support. We recognized revenue of $4.1 million and $1.2 million for year ended December 31, 2018 and 2017. For the year ended December 31, 2016 there were no revenues from this agreement.

On May 5, 2017, Novitex Solutions entered into a master services agreement with ADT LLC, a portion of which is owned by affiliates of Apollo. Pursuant to this master services agreement, Novitex Solutions provides ADT LLC with mailroom and onsite mail delivery services at an ADT LLC office location and managed print services, including supply management, equipment maintenance and technical support services. We recognized revenue of $0.6 million and less than $0.1 million in our consolidated statements of operations from ADT LLC under this master

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services agreement for the year ended December 31, 2018 and 2017. For the year ended December 31, 2016 there were no revenues from this agreement.

On July 20, 2017, Novitex Solutions entered into a master services agreement with Diamond Resorts Centralized Services Company. Diamond Resorts Centralized Services Company is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Novitex Solutions provides commercial print and promotional product procurement services to Diamond Resorts Centralized Services Company, including sourcing, inventory management and fulfillment services. The Company recognized revenue of $5.7 million for the year ended December 31, 2018 and cost of revenue of $0.1 million for the year ended December 31, 2018 from Diamond Resorts Centralized Services Company under this master services agreement. No revenue or cost of revenue was recognized in 2017 or 2016 under this agreement.

In April 2016, Novitex Solutions entered into a master services agreement with Presidio Networked Solutions Group, LLC ("Presidio Group"), a wholly owned subsidiary of Presidio, Inc., a portion of which is owned by affiliates of Apollo and with a common Apollo designated director. Pursuant to this master services agreement, Presidio Group provides Novitex Solutions with employees, subcontractors, and/or goods and services. For the year ended December 31, 2018 and 2017 there were related party expenses of $0.7 million and $0.3 million, respectively, for this service. For the year ended December 31, 2016 there were no expenses from this agreement.

*Payable Balances with Affiliates*

Payable balances with affiliates as of December 31, 2018 and 2017 are as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| | Payable | Payable |
| HOV Services, Ltd | $ 405 | $ 286 |
| Rule 14 | 127 | 158 |
| HGM | 6,998 | 13,689 |
| Apollo affiliated company | 205 | 312 |
| | $ 7,735 | $ 14,445 |

**17. Segment and Geographic Area Information**

The Company's operating segments are significant strategic business units that align its products and services with how it manages its business, approach the markets and interacts with its clients. The Company is organized into three segments: ITPS, HS, and LLPS.

**ITPS:** The ITPS segment provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries.

**HS:** The HS segment operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets.

**LLPS:** The LLPS segment provides a broad and active array of legal services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters.

The chief operating decision maker reviews operating segment revenue and cost of revenue. The Company does not allocate Selling, general, and administrative expenses, depreciation and amortization, interest expense and sundry,

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net. The Company manages assets on a total company basis, not by operating segment, and therefore asset information and capital expenditures by operating segments are not presented.

| | Year December 31, 2018 | | | |
|---|---|---|---|---|
| | **ITPS** | **HS** | **LLPS** | **Total** |
| Revenue | 1,273,647 | 228,015 | 84,560 | 1,586,222 |
| Cost of revenue | 1,007,301 | 151,367 | 51,206 | 1,209,874 |
| Selling, general and administrative expenses | | | | 184,651 |
| Depreciation and amortization | | | | 145,485 |
| Impairment of goodwill and other intangible assets | | | | 48,127 |
| Related party expense | | | | 4,334 |
| Interest expense, net | | | | 153,095 |
| Loss on extinguishment of debt | | | | 1,067 |
| Sundry expense (income), net | | | | (3,271) |
| Other income, net | | | | (3,030) |
| **Net loss before income taxes** | | | | $ (154,110) |

| | Year ended December 31, 2017 | | | |
|---|---|---|---|---|
| | **ITPS** | **HS** | **LLPS** | **Total** |
| Revenue | 827,110 | 233,595 | 91,619 | 1,152,324 |
| Cost of revenue | 620,719 | 152,864 | 55,560 | 829,143 |
| Selling, general and administrative expenses | | | | 220,955 |
| Depreciation and amortization | | | | 98,890 |
| Impairment of goodwill and other intangible assets | | | | 69,437 |
| Related party expense | | | | 33,431 |
| Interest expense, net | | | | 128,489 |
| Loss on extinguishment of debt | | | | 35,512 |
| Sundry expense (income), net | | | | 2,295 |
| Other income, net | | | | (1,297) |
| **Net loss before income taxes** | | | | $ (264,531) |

| | Year December 31, 2016 | | | |
|---|---|---|---|---|
| | **ITPS** | **HS** | **LLPS** | **Total** |
| Revenue | 439,924 | 247,796 | 102,206 | 789,926 |
| Cost of revenue | 296,848 | 158,800 | 63,473 | 519,121 |
| Selling, general and administrative expenses | | | | 130,437 |
| Depreciation and amortization | | | | 79,639 |
| Related party expense | | | | 10,493 |
| Interest expense, net | | | | 109,414 |
| Sundry expense (income), net | | | | 712 |
| **Net loss before income taxes** | | | | $ (59,890) |

The following table presents revenues by principal geographic area where the Company's customers are located for the years ended December 31, 2018, 2017, and 2016.

| | Years ended December 31, | | |
|---|---|---|---|
| | **2018** | **2017** | **2016** |
| United States | $ 1,347,516 | $ 1,000,827 | $ 654,565 |
| Europe | 211,314 | 136,531 | 131,287 |
| Other | 27,392 | 14,966 | 4,074 |
| Total Consolidated Revenue | $ 1,586,222 | $ 1,152,324 | $ 789,926 |

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**18. Selected Quarterly Financial Results (Unaudited)**

The following tables show a summary of the Company's quarterly financial information for each of the four quarters of 2018 and 2017:

| | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 |
|---|---|---|---|---|
| Revenue | $ 393,167 | $ 410,382 | $ 383,030 | $ 399,643 |
| Cost of revenue (exclusive of depreciation and amortization) | 293,792 | 313,954 | 295,936 | 306,192 |
| Selling, general and administrative expenses | 45,595 | 46,723 | 44,913 | 47,420 |
| Depreciation and amortization | 38,019 | 36,368 | 35,041 | 36,057 |
| Impairment of goodwill and other intangible assets | — | — | — | 48,127 |
| Related party expense | 1,105 | 1,402 | 759 | 1,068 |
| **Operating income (loss)** | 14,656 | 11,935 | 6,381 | (39,221) |
| **Other expense (income), net:** | | | | |
| Interest expense, net | 38,017 | 38,527 | 38,339 | 38,212 |
| Loss on extinguishment of debt | — | — | 1,067 | — |
| Sundry expense (income), net | (64) | (2,325) | (2,571) | 1,689 |
| Other income, net | (3,328) | (704) | (781) | 1,783 |
| **Net loss before income taxes** | (19,969) | (23,563) | (29,673) | (80,905) |
| Income tax (expense) benefit | (4,025) | (1,619) | 733 | (3,496) |
| **Net loss** | (23,994) | (25,182) | (28,940) | (84,401) |
| Cumulative dividends for Series A Preferred Stock | (914) | (914) | (914) | (914) |
| **Net loss attributable to common stockholders** | $ (24,908) | $ (26,096) | $ (29,854) | $ (85,315) |
| Weighted average outstanding common shares | 152,140,117 | 152,259,589 | 151,663,670 | 152,343,823 |
| **Earnings per share:** | | | | |
| Basic and diluted | $ (0.16) | $ (0.17) | $ (0.20) | $ (0.54) |

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| | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 |
|---|---|---|---|---|
| Revenue | $ 218,260 | $ 209,382 | $ 338,393 | $ 386,289 |
| Cost of revenue (exclusive of depreciation and amortization) | 143,708 | 140,418 | 255,116 | 289,901 |
| Selling, general and administrative expenses | 35,581 | 34,998 | 102,048 | 48,328 |
| Depreciation and amortization | 21,320 | 21,406 | 28,052 | 28,112 |
| Impairment of goodwill and other intangible assets | — | — | — | 69,437 |
| Related party expense | 2,385 | 2,456 | 26,892 | 1,698 |
| **Operating income (loss)** | 15,266 | 10,104 | (73,715) | (51,187) |
| **Other expense (income), net:** | | | | |
| Interest expense, net | 26,219 | 27,869 | 37,652 | 36,749 |
| Loss on extinguishment of debt | — | — | 35,512 | — |
| Sundry expense (income), net | 2,724 | (327) | 563 | (665) |
| Other income, net | — | — | — | (1,297) |
| **Net loss before income taxes** | (13,677) | (17,438) | (147,442) | (85,974) |
| Income tax (expense) benefit | (2,004) | (2,074) | 37,002 | 27,322 |
| **Net loss** | (15,681) | (19,512) | (110,440) | (58,652) |
| Dividend equivalent on Series A Preferred Stock related to beneficial conversion feature | — | — | (16,375) | — |
| Cumulative dividends for Series A Preferred Stock | — | — | (1,225) | (1,264) |
| **Net loss attributable to common stockholders** | $ (15,681) | $ (19,512) | $ (128,040) | $ (59,916) |
| Weighted average outstanding common shares | 67,827,401 | 69,721,078 | 138,895,681 | 150,569,877 |
| **Earnings per share:** | | | — | |
| Basic and diluted | $ (0.23) | $ (0.28) | $ (0.92) | $ (0.40) |

**19. Subsequent Events**

The Company performed its subsequent event procedures through March 19, 2019, the date these consolidated financial statements were made available for issuance.

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## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2018. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), means controls and other procedures of a company that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based upon that evaluation, as discussed below, our CEO and CFO have concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were not effective because of the material weaknesses in internal control over financial reporting described below.

Notwithstanding such material weaknesses in internal control over financial reporting, our management, including our CEO and CFO, has concluded that our consolidated financial statements present fairly, in all material respects, our financial position, results of our operations and our cash flows for the periods presented in this Annual Report, in conformity with U.S. generally accepted accounting principles.

**Management's Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate "internal control over financial reporting," as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of its inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis.

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On April 10, 2018, we completed the acquisition of Asterion International Group, whose financial statements constitute $18 million of total assets and $59.7 million of total revenues of the consolidated financial statements as of and for the year ended December 31, 2018. In accordance with SEC guidance, management has elected to exclude this acquisition from its 2018 assessment of and report on internal control over financial reporting.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2018 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013) (the "COSO 2013 Framework"). Based on its assessment, our management, including our CEO and CFO, has concluded that our internal control over financial reporting was not effective as of December 31, 2018 due to material weaknesses in our internal control over financial reporting described below.

**Control Environment**

We had insufficient internal resources with appropriate knowledge and expertise to design and implement, document and operate effective financial reporting processes and internal controls and to supervise control implementation activities provided by third party contractors during the reporting period.

We did not have formal policies and procedures to hold personnel accountable for their internal control responsibilities through performance measurement plans and goals, and our personnel did not have sufficient training on the COSO 2013 Framework and its implications on financial reporting and their related internal control roles and responsibilities.

**Risk Assessment**

We did not have an effective risk assessment process that defined clear financial reporting objectives and that identified and evaluated risks of misstatement due to error over certain financial reporting processes and developed internal controls to mitigate those risks. In addition, the Company did not determine modifications required to certain financial reporting processes and related control activities as a result of changes in the application of U.S. generally accepted accounting principles related to the planned adoption of ASC Topic 842, *Leases*, and in connection with a business acquisition.

**Information and Communication**

We did not establish sufficient controls over various information technology systems used by us to ensure that appropriate and accurate information was available to financial reporting personnel on a timely basis in order to fulfill control responsibilities.

**Monitoring Activities**

We did not design, implement and operate effective monitoring activities to ascertain whether the processes and internal controls related to the five COSO 2013 Framework components (and underlying principles) were present and functioning. We did not have a timely process to remediate existing control deficiencies.

**Control Activities**

As a consequence of the ineffective control environment, risk assessment, information and communication and monitoring activities components, we did not design, implement, and maintain effective control activities at the transaction level over certain significant accounts to mitigate the risk of material misstatement in financial reporting. We did not develop written policies and procedures at a sufficient level of detail or retain the required documentation to demonstrate the consistent and timely operation of the controls at a sufficient level of precision to prevent and detect potential misstatements.

The following deficiencies in control activities were identified:

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*Financial Statement Close and Reporting Process*

We had ineffective design and implementation and operation of controls over the completeness, existence and accuracy of the financial statement close and reporting process and financial statement disclosures.

*GITCs and Automated Controls*

We did not design and maintain effective complementary entity user controls and effective general information technology controls ("GITCs") for the information systems related to transactions processed by service organizations on our behalf. Specifically, we did not:

- establish effective complementary entity user controls and effective financial and IT user access controls for the IT systems managed by service organizations related to payroll and certain revenue transactions across all components and procurement at the Novitex component to ensure appropriate segregation of duties and to adequately restrict user and privileged access to appropriate personnel;
- establish program change management controls related to procurement at the Novitex component to ensure that all program changes were subject to appropriate approval and testing before the launch of the program changes into live production and post-implementation testing; and
- assign responsibility and authority to individuals who were responsible for managing the financial reporting and control activities conducted by the service organizations on our behalf.

We did not design and maintain effective GITCs over IT applications supporting the procurement process at two components, BancTec Americas and Rust. We did not design effective GITCs over IT applications supporting the lease IT application at Novitex. Specifically, we did not design and implement and operate effective GITCs over these IT systems including:

- establish a baseline operation of these IT systems to ensure they operated as intended in accordance with financial reporting and business objectives;
- establish program change management controls to ensure that all program changes were subject to appropriate approval and testing before the launch of the program changes into live production and post-implementation testing; and
- establish effective user access controls to ensure appropriate segregation of duties and to adequately restrict user and privileged access to appropriate financial and IT personnel

Accordingly, automated process-level controls and manual controls that are dependent upon the information derived from these IT systems related to payroll, revenue, procurement and leases are also determined to be ineffective as noted in *Other Control Activities* below.

*Other Control Activities*

We had ineffective design and implementation and operation of other control activities affecting the following consolidated accounts or at specific components as described:

- The completeness, existence and accuracy of revenue and deferred revenue transactions, including customer deposits and accounts receivable.
- The completeness, existence and accuracy of the procurement of goods and services and invoice processing and the completeness and accuracy and presentation of accounts payable and accrued liabilities and operating expenses.
- The completeness, existence, accuracy and presentation of payroll and related expenses and accrued compensation and benefits.
- The completeness, existence and accuracy of lease expense, capital lease obligations and the presentation of operating and capital lease disclosures.

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- The completeness, existence and accuracy of fixed assets additions and disposals and related depreciation at the Novitex component.
- The completeness and accuracy of restricted cash and obligation for claim payments and the presentation of restricted cash at the Rust component
- The completeness and accuracy of outsource contract cost additions in the current year

Some of these control deficiencies resulted in immaterial misstatements to the preliminary consolidated financial statements that were corrected prior to the issuance of the consolidated financial statements. These control deficiencies create a reasonable possibility that a material misstatement to the consolidated financial statements will not be prevented or detected on a timely basis, and therefore we concluded that the deficiencies represent material weaknesses in our internal control over financial reporting and our internal control over financial reporting was not effective as of December 31, 2018.

Our independent registered public accounting firm, KPMG, LLP, who audited the consolidated financial statements included in this annual report, has expressed an adverse report on the operating effectiveness of our internal control over financial reporting. KPMG LLP's report appears on page 67 of this Annual Report.

***Changes in Internal Control over Financial Reporting***

**2017 Material Weakness**

We implemented internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) over financial reporting during 2018 in response to no longer being classified as an emerging growth company and being required to report on the effectiveness of our internal controls over financial reporting.

In 2017, we disclosed the following material weakness:

*We lack formal policies and procedures and related controls related to the supervision of specialists engaged to assist management in developing accounting conclusions with respect to a specific revenue contract and stock-based compensation.*

In response, we made the following changes in our internal control over financial reporting during the fiscal year ended December 31, 2018 to remediate this material weakness in internal control over financial reporting, specifically:

- assigned roles and responsibilities and held individuals accountable for managing the relationship with the external specialists;

- designed and implemented written policies and procedures to address our review and supervision of work performed by specialists on our behalf;

- designed and implemented controls to address the completeness, existence and accuracy of the calculations and work product prepared by the specialists in specific areas related to the accounting for a specific revenue contract and stock-based compensation as noted in the prior year’s material weakness.

**2018 Interim Material Weaknesses**

During the quarter ended June 30, 2018, the Company identified material weaknesses in general information technology controls as follows:

- We did not design and maintain effective GITCs related to all information technology enterprise resource planning systems (ERP systems) and certain supporting revenue databases used in all of our financial reporting. Specifically, the Company did not have effective systems development, program change management or logical access controls to support its IT operating systems, databases and IT applications.

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- We did not design and maintain effective GITCs over electronic report writers used to extract information from IT systems in the analysis of financial information.

- We did not design and maintain effective complementary entity user access controls for the information systems related to payroll and certain revenue transactions processed by service organizations across all components; and effective complementary entity user controls related to user access and program change over procurement transactions processed by service organizations at the Novitex component.

Accordingly, all automated process level controls and manual controls that were dependent upon the completeness and accuracy of information derived from these IT systems were also ineffective.

The Company completed the following remediation activities to address these material weaknesses except for those material weaknesses described above under section Management's Report on Internal Control over Financial Reporting:

- designed and communicated written policies and procedures over systems development process, program change management and logical access over the certain ERP systems, revenue databases at these components and over the use of report writers in financial reporting processes and controls at these components;

- designed and implemented and operated effective GITCs over these IT systems including:
  - established a baseline operation of the IT systems to ensure it operated as it was intended in accordance with financial reporting and business objectives;
  - established program change management controls to ensure that all program changes were subject to appropriate approval and testing before the launch of the program changes into live production and post-implementation testing;
  - established effective user access controls to ensure appropriate segregation of duties and to adequately restrict user and privileged access to appropriate financial and IT personnel;

- established effective oversight and monitoring activities over the Company's IT and financial reporting systems.

Management concluded based on the remediation actions described above that our GITCs were designed and implemented effectively as of December 31, 2018 related to the ERP, revenue databases and report writers across all components. However, we did not have sufficient time to remediate all our material weaknesses related to IT systems.

Except for the material weaknesses described above under Management's Report on Internal Control over Financial Reporting that occurred throughout the year, and the remediation of the 2017 and 2018 Interim Material Weaknesses described above, there were no other changes in our internal control over financial reporting that occurred during the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Remediation Plan**

We identified and began to implement several steps, as further described below, to remediate the material weaknesses described in this Item 9A and to enhance our overall control environment. We are committed to ensuring that our internal controls over financial reporting are designed and operating effectively.

Our remediation process includes, but is not limited to:

- hiring additional internal and external resources to design, implement and enforce internal control responsibilities;

- hiring internal resources with appropriate knowledge and expertise to operate effectively financial reporting processes and internal controls;

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- holding educational sessions with relevant personnel on COSO 2013 Framework and their financial reporting and related internal control responsibilities;
- implementing specific measures to hold individuals accountable for their internal control responsibilities;
- strengthening our GITCs with improved documentation standards, technical oversight and training related to payroll and procurement transactions processed by service organizations; and
- designing specific written review policies and procedures to improve controls in revenue, restricted cash, outsource contract costs additions, financial statement close and reporting process, and accounting for leases and the related disclosures.

We are working diligently to have our enhanced review procedures and documentation standards in place and operating effectively.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

Information about our executive officers is contained in the section titled "Executive Officers" in Part I of this Annual Report.

The other information required by this Item will be included in our Proxy Statement for the 2019 Annual General Meeting of Shareholders under the captions "Director Nominees," "Continuing Members of the Board of Directors," "Additional Information Concerning the Board of Directors of the Company," Committees of the Board of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance," which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2018 and is incorporated by reference in this Annual Report.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item will be included in our Proxy Statement for the 2019 Annual General Meeting of Shareholders under the captions "Executive Compensation" and "Director Remuneration," which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2018 and is incorporated by reference in this Annual Report.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item will be included in our Proxy Statement for the 2019 Annual General Meeting of Shareholders under the caption "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized for Issuance under Equity Compensation Plans," which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2018 and is incorporated by reference in this Annual Report.

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**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item will be included in our Proxy Statement for the 2019 Annual General Meeting of Shareholders under the captions “Certain Relationships and Related Party Transactions” and “Director Independence,” which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2018 and is incorporated by reference in this Annual Report.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item will be included in our Proxy Statement for the 2019 Annual General Meeting of Shareholders under the caption “Independent Registered Public Accounting Firm Fees” which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2018 and is incorporated by reference in this Annual Report.

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**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

**a) (1) Financial Statements**



**(a)(3) Exhibits**

| Exhibit No. | Description | Filed or Furnished Herewith |
|---|---|---|
| 2.1 | Novitex Business Combination Agreement, dated as of February 21, 2017, by and among Quinpario Acquisition Corp. 2, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., Novitex Holdings, Inc., SourceHOV Holdings, Inc., Novitex Parent, L.P, HOVS LLC and HandsOn Fund 4 I, LLC (2) | |
| 3.1 | Restated Certificate of Incorporation, dated July 12, 2017(4) | |
| 3.2 | Amended and Restated Bylaws, dated July 12, 2017(4) | |
| 3.3 | Certificate of Designations, Preferences, Rights and Limitations of Series A Perpetual Convertible Preferred Stock(4) | |
| 3.4 | Waiver of Bylaws(5) | |
| 4.1 | Specimen Common Stock Certificate(1) | |
| 4.2 | Specimen Warrant Certificate(1) | |
| 4.3 | Form of Warrant Agreement between Continental Stock Transfer & Trust Company and the Registrant(1) | |
| 4.4 | Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc. as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee(4) | |
| 4.5 | First Supplemental Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc., as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee(4) | |
| 10.1 | Modification Agreement, dated as of June 15, 2017(3) | |
| 10.2 | Amended & Restated Registration Rights Agreement, dated July 12, 2017, by and among the Company and the Holders(4) | |
| 10.3 | Director Nomination Agreement, dated July 12, 2017, by and between the Company and Apollo Novitex Holdings, L.P.(4) | |
| 10.4 | Exela Technologies, Inc. Director Nomination Agreement, dated July 12, 2017, by and among the Company, the HGM Group and Ex-Sigma 2 LLC(4) | |

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| Exhibit No. | Description | Filed or Furnished Herewith |
|---|---|---|
| 10.5 | First Amendment to First Lien Credit Agreement, dated July 13, 2018, by and among Exela Intermediate Holdings LLC, Exela Intermediate LLC, the Lenders Party Thereto, Royal Bank of Canada, RBC Capital Markets, Credit Suisse Securities (USA) LLC, Natixis, New York Branch and KKR Capital Markets LLC(6) | |
| 21.1 | Subsidiaries of Exela Technologies Inc. | Filed |
| 23.1 | Consent of KPMG LLP | Filed |
| 31.1 | Certification of the Principal Executive Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 | Filed |
| 31.2 | Certification of the Principal Financial and Accounting Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 | Filed |
| 32.1 | Certification of the Principal Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 | Furnished |
| 32.2 | Certification of the Principal Financial and Accounting Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 | Furnished |
| 101.INS | XBRL Instance Document | Filed |
| 101.SCH | XBRL Taxonomy Extension Schema | Filed |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | Filed |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase | Filed |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase | Filed |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | Filed |

**(1)** Incorporated by reference to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-198988).

**(2)** Incorporated by reference to the Registrant's Current Report on Form 8-K filed on February 22, 2017.

**(3)** Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on June 21, 2017.

**(4)** Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 18, 2017.

**(5)** Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on December 21, 2017.

**(6)** Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 17, 2018.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | |
|---|---|
| Dated: March 19, 2019 | By: /s/ RONALD COGBURN<br>Ronald Cogburn, *Chief Executive Officer* |

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| | |
|---|---|
| Dated: March 19, 2019 | By: /s/ RONALD COGBURN<br>Ronald Cogburn, *Chief Executive Officer (Principal Executive Officer) and Director* |
| Dated: March 19, 2019 | By: /s/ JIM REYNOLDS<br>Jim Reynolds, *Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) and Director* |
| Dated: March 19, 2019 | By: /s/ PAR CHADHA<br>Par Chadha, *Chairman of the Board of Directors* |
| Dated: March 19, 2019 | By: /s/ MATTHEW H. NORD<br>Matthew H. Nord, *Director* |
| Dated: March 19, 2019 | By: /s/ JOSHUA M. BLACK<br>Joshua M. Black, *Director* |
| Dated: March 19, 2019 | By: /s/ NATHANIEL J. LIPMAN<br>Nathaniel J. Lipman, *Director* |
| Dated: March 19, 2019 | By: /s/ JOHN H. REXFORD<br>John H. Rexford, *Director* |

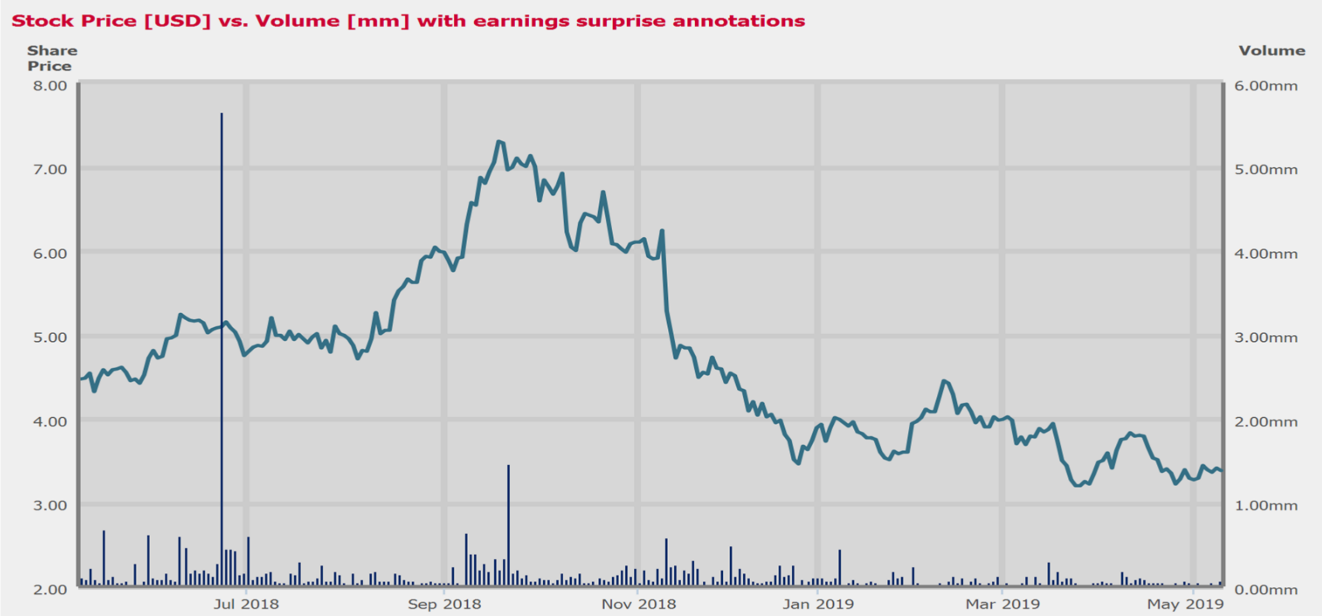
# Exhibit 10

S&P Global
Market Intelligence

# Exela Technologies, Inc. NasdaqCM:XELA
# FQ1 2019 Earnings Call Transcripts
## Thursday, May 09, 2019 9:00 PM GMT
## S&P Global Market Intelligence Estimates

| | -FQ1 2019- | | | -FQ2 2019- | -FY 2019- | -FY 2020- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS (GAAP)** | (0.06) | (0.21) | NM | (0.04) | (0.12) | 0.11 |
| **Revenue (mm)** | 410.07 | 403.76 | (1.54 %) | 430.87 | 1676.15 | 1778.98 |

Currency: USD
Consensus as of May-07-2019 1:38 AM GMT




**- EPS (GAAP) -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ2 2018** | (0.05) | (0.16) | NM |
| **FQ3 2018** | (0.02) | (0.20) | NM |
| **FQ4 2018** | (0.12) | (0.56) | NM |
| **FQ1 2019** | (0.06) | (0.21) | NM |

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# Call Participants

**EXECUTIVES**

**James F. Mathias**
*Vice President of Investor Relations*

**James G. Reynolds**
*Chief Financial Officer*

**Ronald Clark Cogburn**
*Chief Executive Officer*

**ANALYSTS**

**Brian Lee Essex**
*Morgan Stanley, Research Division*

**Dan Dolev**
*Nomura Securities Co. Ltd., Research Division*

**David Lawrence Phipps**
*Citigroup Inc, Research Division*

**Drew Kootman**
*Cantor Fitzgerald & Co., Research Division*

**Todd Cranston Morgan**
*Jefferies LLC, Fixed Income Research*

# Presentation

**Operator**

Good day and welcome to the Elexia Technologies (sic) [ Exela Technologies ] First Quarter 2019 Financial Results Conference Call. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Jim Mathias, Vice President of Investor Relations. Please go ahead.

**James F. Mathias**
*Vice President of Investor Relations*

Thank you, Lindsay. Good afternoon, everyone, and welcome to the Exela Technologies First Quarter of 2019 Conference Call. I'm joined here today with Ron Cogburn, Exela's Chief Executive Officer; and Jim Reynolds, our Chief Financial Officer.

Our agenda for today's call is as follows: Ron will provide an overview of our first quarter results and update you on our strategy. Jim will then discuss our financial performance in greater detail. We will then take your questions.

Today's conference call is being broadcast live via webcast, which is available on the Investor Relations page of Exela's website, investors.exelatech.com. The telephonic replay of this call will be available until May 16 of this year. Information to access the replay is listed in today's press release, which is also available on Exela's Investor Relations website.

During today's call, Exela will make certain statements regarding future events and financial performance that may be characterized as forward-looking under the Private Securities and Litigation Reform Act of 1995. These forward-looking statements are subject to known and unknown risks and uncertainties and are based on current expectations and assumptions. We undertake no obligation to update any statements to reflect the events that occur after this call, and actual results could differ materially from any forward-looking statements. For more information, please refer to the risk factors discussed in Exela's most recently filed periodic report on Form 10-K, along with the associated press release and the company's other filings with the SEC. Copies are available from the SEC or the Investor Relations page of Exela's website.

During today's call, we will refer to certain non-GAAP financial measures. We believe these non-GAAP measures provide additional information on how management views the operating performance of our business. Reconciliations between GAAP and non-GAAP results we discuss on today's call can be found on the Investor Relations page of our website.

During today's discussion, please refer to our press release and investor fact sheet which are accessible on the Investor Relations page of our website, investors.exelatech.com. In combination with today's discussion, we believe our press release and our expanded fact sheet results in a more efficient review for our stakeholders, and as a result, we do not believe slides are necessary going forward.

We will now begin by turning the call over to our CEO, Ron Cogburn. Ron?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Good afternoon and thanks, everyone, for joining us today. As Jim just mentioned, I hope by now you've had the opportunity to review our quarterly materials available on our Investor Relations website. We are pleased with the solid first quarter results and we are excited about the remainder of 2019. On a constant currency basis, our revenue of $410 million grew 4% year-over-year, and adjusted EBITDA of $75 million grew 8% year-over-year. Our first quarter adjusted EBITDA margin was 18.3%, an increase of 60 basis points from 17.7% in Q1 of 2018. The improvement in margins validates the path that we are traveling to transform businesses through our automation as we get the benefits of executing our remaining cost savings initiatives.

Growth was backed by our growing and profitable pipeline and the continued ramp of our existing customers. Our Digital Now strategy continues to win business by leveraging our best-in-class technology and support services. Our goal is to continue to accelerate the digital transformation of our customers through expanding engagements across multiple layers and to be their technology and business process automation partner.

As we continue to grow and service our new and existing customers, we have seen an acceleration in our initial costs associated with these wins. As a result, we have added to our employee base and have seen an increased use of working capital. These trends should reverse in the back half of the year. Further, we continue to exit low margin contracts where customers do not have a path going forward towards automation. On a sequential basis, we expect revenue to be similar to Q1 and improve materially in the third and fourth quarter. Accordingly, based on our current pipeline, we are reaffirming our 2019 outlook.

As I mentioned a moment ago, we added to our employee base due to these wins. At the end of this quarter, our total headcount rose to 22,976 as a result of adding 929 FTEs. Our customer awareness is rising, and our solutions are well received. This year, Exela was ranked #18 on the Everest Group of BPS top 50 list, improving from #22 last year and from #35 the year before. With our digital solutions, we have posted consistently strong scores for market impact, vision and capability across multiple categories such as F&A digital augmentation suites, banking digital capabilities platforms, health care process automation and P&C insurance services.

In executing our strategy of working to accelerate the digital transformation of our customers, we're making significant progress on our savings initiatives that we've identified throughout the organization. We expect to execute on a material portion of our remaining $56.4 million in identified savings during the remainder of 2019, which is detailed in our fact sheet.

Digital transformation and execution of our initiatives will drive the future convergence of adjusted EBITDA to EBITDA.

In early April, we launched Exela's SmartOffice. We're excited to bring the Internet of Things to the workplace. In conversations with our customers, there is an increased demand for automation and enhanced user experience. Utilizing our integrated technology products, SmartOffice was created to improve the overall user experience. We believe it represents the next wave in workplace optimization.

With SmartOffice, Exela can work with customers to interconnect previously disconnected technologies to better suit the modern office environment. The offering can transform the front office, energy and facilities management, logistics and fulfillment and provides on-demand services with connected devices to facilitate green initiatives and to reduce waste. The solutions included in SmartOffice are supported by a single sign-on capability which helps visitors accelerate registration and increase visibility to workflows and compliance.

Exela's business process automation continues to drive favorable revenue per FTE.

Now I'll take a moment and briefly cover some of the annual statistics that we discovered -- discussed on our Q4 2018 call in March of this year. From 2017 to 2018, we increased our revenue per FTE by 11% on an organic basis to $73,000 at 9% on an actual basis to $72,000. With 2018 revenue per FTE of $72,000 and as the composition of our workforce evolves, I believe a few longer-term trends should also be continued -- or followed. For example, in the Americas, automation provide to processes drives higher efficiency and throughput which enable headcount reductions. As Exela ramps enterprise contracts such as the global bank contract I mentioned earlier this year, implementing our automation enables workers to do more. In Europe, we see a great opportunity to continue to grow our footprint and our revenue. Looking at the rest of the world, we have a global delivery model that is driven by automation. On a geographic basis, the global model enables us to be location agnostic which benefits our customers and provides us with the opportunity to drive towards an optimal cost structure.

I want to review a few customer and revenue metrics we refresh on an annual basis as well that we believe are essential in tracking Exela's progress and execution.

We have a diverse revenue base with our top 20 customers representing 36% of our revenue, the top 100 represents 61% of our revenue and our top 200 customers represent 73% of our 2018 revenue. With high customer retention, our diverse revenue base provides us with top line visibility as well as significant opportunity to add additional statements of work to existing customers.

At the end of the first quarter, 83% of our revenue is now found in the Americas and 17% was from Europe. As you know, in the past, we have discussed our strategy to increase wallet share within our existing customers. At the end of 2018, we had 10 customers generating $25 million in annual revenue, an increase from 6 at the end of 2017. We also added 62 customers generating over $1 million, reaching a total of 259 customers. Both the increases in the $25 million and $1 million customers demonstrate the effectiveness of our efforts to grow within our existing customers and gain wallet share.

Now here's an update. During the first quarter of 2019, we have 2 existing customers which are now expected to generate over $25 million in additional annual contract value, and we have 5 customers, existing customers, now expected to generate over $1 million in additional annual contract value.

These customers are in the largest and growing industries that we serve which are banking and financial services and health care. When I look at our pipeline and the ACV we are adding, I expect these positive trends will continue.

We are off to a great start in 2019. The team is focused on transforming pipeline into revenue and we are working with our customers on their digital transformations.

And now I would like to hand the call over to Jim Reynolds, who will discuss our financial results in greater detail. Jim?

**James G. Reynolds**
*Chief Financial Officer*

Thanks, Ron. First quarter revenue totaled $403.8 million compared to $393.2 million in Q1 of 2018, an increase of 2.7%. On a constant currency basis, revenue was $409.8 million, an increase of 4.2%.

Looking at revenue by geography, our revenue mix was 83% in North America and 17% in Europe. This compares to 90% in North America and 10% in Europe in Q1 of 2018.

Moving to our segments. Revenue for our ITPS segment was $324.6 million, an increase of 4.1% year-over-year, driven by a ramp-up of contracts using our Digital Now model and the impact of growth investments. Our growth in ITPS was negatively affected by exiting certain low-margin contracts and currency headwinds of approximately $6 million on a year-over-year basis. Our Healthcare Solutions segment grew 4.6% on a year-over-year basis, totaling $61.3 million, up from $58.6 million in the first quarter of 2018. The quarterly results in health care were consistent with our expectations. Our legal and loss prevention segment revenue, or legal, declined 21.2% on a year-over-year basis to $17.8 million. We had few large projects that were active in the first half of 2018 that settled midyear and had not been able to replace. Results in legal are events-driven and project-based and can cause our revenue to be lumpy between quarters.

Gross margin for the first quarter was 24% compared to 25.3% in the first quarter of 2018. Gross profit margins were lower primarily due to higher initial costs related to new revenue, including scaling of $60 million in ACV during the first quarter and lower revenue in our legal segment. We expect gross margins to improve in the future as revenue scales to steady-state and the conversion of our savings initiatives.

SG&A for the quarter totaled $49.9 million and was 12.3% of revenue compared to 11.6% of revenue in the first quarter of 2018. The increase in SG&A is driven by our continued investment in our customer-facing organizations as well as higher costs associated with being a public company, including higher stock compensation-related expenses.

Our adjusted EBITDA for the quarter totaled $74.1 million, an increase of 6.5%, and a (sic) [ our ] margin in the first quarter was 18.3%, an increase from 17.7% in the first quarter of 2018. The improvement in

adjusted EBITDA margins was mainly driven by revenue growth and by continued realizations of savings flow-through but were partially offset by investments the company made for growth.

I want to discuss in greater detail the differences between EBITDA and adjusted EBITDA. The primary variance between the 2 are optimization and restructuring charges. This adjustment relates to investments we have made to achieve cost savings and a majority relates to headcount. During the first quarter, optimization and restructuring expenses totaled $25.8 million. This increased over Q1 of 2018 as we're incurring additional upfront cost for a few large projects. We expect this trend to continue in 2019, but decline in the year -- later quarters.

Our 10-Q and press release present our cash flows and balance sheet. Liquidity at the end of the first quarter was $57.9 million, and total net debt was $1.459 billion. Cash flow from operations in the first quarter decreased significantly. This was due to approximately $20 million in working capital usage from acceleration in our initial costs related to ramp of new revenue. We have added approximately 900 employees, and as a result, payroll costs are paid biweekly with receivable collections following between 60 and 65 days. This is why we saw a drag in our AR-related growth. In addition, working capital was negatively impacted by approximately $25 million due to the timing of interest payments. Our $50 million interest payments are made every January and July.

CapEx for the quarter was $13 million or 3.2% of revenue. This is slightly higher primarily due to the ramp of the new revenue I discussed earlier. We still feel comfortable with CapEx being in the 2% to 2.5% of revenue range, unless we have similar new bid contract ramps in the remainder of the year. At March 31, 2019, our NOL balance totaled approximately $260.6 million, which is available to offset future cash taxes. Our buyback program on stock remains in effect, but we did not purchase any additional shares in the first quarter of 2019, although the settlement of some shares purchased in Q4 2018 took place in the 1st week of January.

With respect to our current business outlook, we are not making any changes to our full year 2019 guidance. In Q2 of 2019, we expect revenue to be similar to Q1 and improve materially in the third and fourth quarter based on our strong pipeline, which is in late stages.

In closing, we have a solid start to 2019. We are pleased with our results as we work to drive revenue and EBITDA growth going forward.
That concludes our formal comments. Operator, with that, please open the queue for questions.

# Question and Answer

**Operator**

[Operator Instructions] Your first question today comes from Dan Dolev from Nomura.

**Dan Dolev**
*Nomura Securities Co. Ltd., Research Division*

I've got actually 3 quick questions. I hope that's okay. Can you give us the impact of M&A, the exact impact of M&A in the quarter?

**James G. Reynolds**
*Chief Financial Officer*

So thanks for the question. With respect to the impact of M&A, you look at our ITPS, if you exclude the contracts, low-margin contracts we exited during the year, offset by the acquisition we did in the spring, our organic growth rate was approximately 3%.

**Dan Dolev**
*Nomura Securities Co. Ltd., Research Division*

Right, but that's excluding the margin, the low-margin contract, right, that you...

**James G. Reynolds**
*Chief Financial Officer*

That is correct.

**Dan Dolev**
*Nomura Securities Co. Ltd., Research Division*

Got it. And did Asterion was at, what, like $16 million? Or less than or more than that in terms of contribution?

**James G. Reynolds**
*Chief Financial Officer*

We didn't give out specific numbers for Asterion, but it was approximately in that range.

**Dan Dolev**
*Nomura Securities Co. Ltd., Research Division*

Got it. And if you look at sort of the 3 segments, actually, like both ITPS and health care sort of fair to roughly in line with our expectations. I feel like the legal segment was somewhat below we were expecting some positive growth this quarter. So what was driving that? And when can we expect positive growth from that segment?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Yes, thanks. Within the legal state, our segment, the revenue was really project-based and lumpy. We had some great cases in the end of -- in 2018, that finished up midyear related to notifications, and we just haven't seen the scale. We still have a large number of cases hitting singles and doubles in revenue, but there have not been the large cases we've seen historically. So while we're a little disappointed, we think that given the pipeline, there's opportunity for growth of the second half of the year.

**Operator**

Your next question comes from Joseph Foresi with Cantor Fitzgerald.

**Drew Kootman**
*Cantor Fitzgerald & Co., Research Division*

This is Drew Kootman on for Joe. You guys mentioned the pipeline remains strong. I was just curious, are you seeing an increase in the pipeline due to Digital Now? Or maybe you could just touch on how Digital Now is sort of changing the pipeline? Or what you're seeing through that?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Drew, that's the right question, and that is the conclusion. I think I've mentioned last quarter the growth in our pipeline year-over-year is almost double what we have seen previously before all opportunities related to Digital Now. And as we move forward, we're beginning to see a pickup in the interest in SmartOffice. And so all of these have come together from an enterprise level with the pursuit that we've created with our strategic dealing teams now, I think that's part of the other reason we've seen our pipeline grow. So we're very excited to see how that plays out because we believe we have a higher opportunity or a better opportunity for a higher conversion rate of that pipeline.

**Drew Kootman**
*Cantor Fitzgerald & Co., Research Division*

Okay. And then I saw the little slide in Exela regarding the synergies, but I was wondering, could you update us on some of the synergies and what you expect moving forward and the timeframe around that?

**James G. Reynolds**
*Chief Financial Officer*

Yes, so within our fact sheet, we lay out the savings. They're approximately $56.4 million primarily in head count. We -- when we look at 2019, we feel very good that a majority of these will be taken in our results in this year and we'll have a ramp up. But we are going to be cautious because it does cost cash to implement some of these savings. So we're going to be very prudent.

**Drew Kootman**
*Cantor Fitzgerald & Co., Research Division*

Okay. And then 1 more if I could just sneak it in on health care. Looks like health care actually had decent growth, especially compared to last year. I was wondering if you could just touch on if you expect that moving forward or what your thoughts are around the health care segment.

**James G. Reynolds**
*Chief Financial Officer*

Sure. With the health care, we're excited, we closed on a small health care asset at the end of the year. It gave us a great partnership moving forward that we will continue to leverage. So we feel really positive about where we are on a go-forward basis in health care.

**Operator**

Your next question comes from Brian Essex with Morgan Stanley.

**Brian Lee Essex**
*Morgan Stanley, Research Division*

I was wondering if maybe you could talk a little bit about some of the relationships with existing customers. I know that recently you guys had, in particular, a pretty large lockbox win with a big bank. How much new business are you able to penetrate existing customers with? And how much of that pipeline does that account for within your visibility for the year?

**Ronald Clark Cogburn**
*Chief Executive Officer*

So Brian, this is Ron. I mean, that's a good question. Let me help clarify that, the conversation around that big bank. So this is our Digital Now strategy, and so there's multiple lines of service. Certainly, there is remittance processing involved with this. But the longer this customer has our technology platforms in place, the more services we'll begin to roll out through that customer. So when you think about how we've grown historically, it has been through our existing customer base, and it has to do with the ability to land and expand. So this bank was a great customer example. They had been a customer for almost 10 years. We did a handful of services for them. That gave us the opportunity because they trust us to be able to go in and present a more complex and more integrated type of offering that would reach throughout their entire organization. So as we sit here today, I think we mentioned last time, they liked it so much, they increased the term of the contract and as well as the fund. So when we look at our pipeline, which is the question, we see lots of opportunities like this that are similar where we've had a great relationship with a large existing customer. They have now allowed us to come in and propose to them a more integrated solution that uses all of the layers of our technology. We call it our 7-layer stack. If they say yes to the seventh layer, they're going to be fully integrated with us and our technology and our services and our solutions. So that's really sort of a foundational strategy we're using.

**Brian Lee Essex**
*Morgan Stanley, Research Division*

Okay. And then maybe just a little bit on the seasonality. And I think you pointed to a little bit of softness in the quarter with a better looking kind of pipeline at the end of the year. But I think 3Q, I think from prior conversations, tends to be a seasonally softer quarter. Do you think some of these volumes kind of pushes in to the back half of the year? And I guess how do we get comfortable or how do we have confidence in that, that's actually going to pull through?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Good question. This year, we closed $116.5 million in ACV. We're ramped up $60 million by the end of Q1. And although there's some softness we see in Q3, typically due to Europe, a lot of the revenue is more back-end loaded, but are pretty confident in the back half of the year seeing material growth.

**Brian Lee Essex**
*Morgan Stanley, Research Division*

Okay. And then maybe just a quick one for Jim, I mean, you mentioned headcount-related drag on working capital. I mean, how do I get a sense that -- I see it on the cash flow statement, not really apparent on the balance sheet, how do I wrap my head around, it looks like about $15 million, I guess, that compared -- lower compared to last year on a payables and accrued liabilities? Where does that kind of flow through? And how do we think about that kind of reversing out in the remainder of the year?

**James G. Reynolds**
*Chief Financial Officer*

Sure. We ramped up these large projects at the beginning of this quarter towards the mid, so we did have a fair amount of AR drag with these larger contracts. Obviously, we're paying payroll, which impacts the overall cash balance. But this starts to reverse. Typically, our working capital comes back in the second quarter. We do, right then, we have a little bit of a drag in the third quarter related to our bond payment, our interest payment, and then it comes back at the back end of the year.

**Operator**

[Operator Instructions] The next question comes from David Phipps with Citigroup.

**David Lawrence Phipps**
*Citigroup Inc, Research Division*

So when we look at the sequential progress, will be about flat quarter-to-quarter, and how would you expect some of the different businesses to perform? Do we expect -- is there anything big or small change

from the litigation side of the business? Or is it that things kind of flattening out in general over the 2 -- over the 3 sectors?

**James G. Reynolds**
*Chief Financial Officer*

So we don't give specific guidance by segment, but if you look historically, we've seen growth within our ITPS. And then we feel really good about how we're positioned within health care this year. Within our legal, it gets a little lumpy from quarter-to-quarter. We've kind of been ramping down slightly from a revenue perspective. We think this is at least the baseline and hope to grow from here as the pipeline converts within our legal group.

**David Lawrence Phipps**
*Citigroup Inc, Research Division*

Okay. And then if we look at some of the margin progression, you've made some nice margin progression in the past 5 quarters. And would you expect to continue to make margin progression in the June quarter even though revenues will be roughly flat?

**James G. Reynolds**
*Chief Financial Officer*

So we don't give out specific quarterly guidance, but what I would tell you is, as the saving initiatives flow through the P&L, a majority of those run through our cost of goods sold. As we put our technology in and take out people and headcount, you'll start to see the gross margin turn, which we expect.

**David Lawrence Phipps**
*Citigroup Inc, Research Division*

Okay. Because you added about 1,000 employees during the quarter so that would suggest that you're set up for new business or you're going to have a little bit of extra costs. Maybe you can talk through that a little bit because if we're flat but we have more cost to more employees, it seems like that you're going to have little bit of margin pressure unless you have some cost savings to offset that.

**James G. Reynolds**
*Chief Financial Officer*

Yes, absolutely. We've added, like Ron said, about 929 employees which almost all in the production in the cost area. And as we ramp these contracts, our revenue hits steady state and we put in our technology and start to see the benefit in margin expansion. So we're well underway with respect to these contracts.

**David Lawrence Phipps**
*Citigroup Inc, Research Division*

Okay. And then finally, on the M&A outlook, how's the pipeline look for Exela right now?

**James G. Reynolds**
*Chief Financial Officer*

So as we said at the end of Q4 as part of our guidance, we're not anticipating any acquisitions. There's always a pipeline for them, but we're really going to focus this year on deleveraging.

**Operator**

Your next question comes from Eric Bourassa with Jefferies.

**Todd Cranston Morgan**
*Jefferies LLC, Fixed Income Research*

This is actually Todd Morgan. Two things. Number one, people talked a little bit about the legal division, and you've mentioned that it's lumpy. How kind of integrated is that business in with the rest of the company? How important is it to the overall kind of growth story of the company? And are there other

options you might consider again as a kind of the first question. And then the second question, I was hoping you could talk a little bit more about restructuring and optimization costs that you have here. I mean they've been persistently high. I guess you've defined those as being the salary and benefits for folks that are -- at this part of that optimization process, but is there any -- can you give us any kind of understanding of what kinds of people those are, what those kinds of expenses are and how the those might trend as we look forward?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Sure. Good questions. With respect to our legal segment, we've gone and we view significant opportunity. When we brought in Enterprise Solutions into the mix, they have a fair amount of business with legal, law firms, et cetera, that are being included within our ITPS. So we see an opportunity to expand our legal services with that relationship. Although it's not completely integrated from a facility location, it's still somewhat separate. We view it as there's a significant revenue synergy or opportunity by leveraging those relationships. In addition, what I would tell you, in addition, we've hired a new individual that's responsible to help us drive our legal business and we're excited about having him on board.

I think the second question related to the optimization and restructuring. Optimization and restructuring charges are primarily headcount-related charges. As we transition for a more managed analog-type solution to a digital solution, we need time, and we have people doing non -- probably not-as-productive services. And as you put in the technology, you start to have the ability to take out headcount. In addition, in a lot of these clients, there's third-party technology that's being used. And part of Exela's suite and putting in our technology, we're able to reduce the overall cost to perform that services. So if you look at optimization, we feel good as we have some of these large projects, it will take us a little time to work through, but we expect optimization to trend down over the quarters.

**Operator**

We have one last question from [ Matthew Sanchaefer ] with Matrix Financial.

Sorry, I have been advised this concludes our question-and-answer session. I would like to turn the conference back over to Ron Cogburn for any closing remarks.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Yes, thanks, everyone, for joining today. We look forward to speaking with you again over the next quarter, and we always extend an invitation to any of the shareholders and analysts to come by and visit with us at our technology centers, our innovation centers. They're in the New York area, Dallas, London, Amsterdam and, of course, in Los Angeles. Thanks, everyone, and goodbye.

**Operator**
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

# Exhibit 11

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

## FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 31, 2019**

**Or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission file number: 001-36788**

# EXELA TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Delaware**<br>(State of or other Jurisdiction Incorporation or Organization) | **47-1347291**<br>(I.R.S. Employer Identification No.) |
| **2701 E. Grauwyler Rd.**<br>**Irving, TX**<br>(Address of Principal Executive Offices) | **75061**<br>(Zip Code) |

Registrant's Telephone Number, Including Area Code: **(844) 935-2832**

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class | Trading Symbol | Name of Each Exchange on Which Registered |
|---|---|---|
| Common Stock, Par Value $0.0001 per share | XELA | The Nasdaq Stock Market LLC |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large Accelerated Filer ☐ | Accelerated Filer ☒ |
| Non-Accelerated Filer ☐ | Smaller Reporting Company ☒ |
| | Emerging Growth Company ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 8, 2019 the registrant had 150,142,955 shares of Common Stock outstanding.

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**Exela Technologies, Inc.**

**Form 10-Q**

**For the quarterly period ended March 31, 2019**

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**PART I—FINANCIAL INFORMATION**

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Balance Sheets**
**As of March 31, 2019 and December 31, 2018**
*(in thousands of United States dollars except share and per share amounts)*

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 8,262 | $ 25,615 |
| Restricted cash | 4,998 | 18,239 |
| Accounts receivable, net of allowance for doubtful accounts of $5,913 and $4,359 respectively | 278,064 | 270,812 |
| Inventories, net | 16,321 | 16,220 |
| Prepaid expenses and other current assets | 25,330 | 25,015 |
| **Total current assets** | **332,975** | **355,901** |
| Property, plant and equipment, net of accumulated depreciation of $163,199 and $154,060 respectively | 129,621 | 132,986 |
| Operating lease right-of-use asset, net | 100,727 | — |
| Goodwill | 708,285 | 708,258 |
| Intangible assets, net | 397,412 | 407,021 |
| Deferred income tax assets | 16,202 | 16,225 |
| Other noncurrent assets | 17,667 | 19,391 |
| **Total assets** | **$ 1,702,889** | **$ 1,639,782** |
| **Liabilities and Stockholders' Equity (Deficit)** | | |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable | $ 90,924 | $ 99,853 |
| Related party payables | 6,184 | 7,735 |
| Income tax payable | 4,898 | 1,996 |
| Accrued liabilities | 63,138 | 66,008 |
| Accrued compensation and benefits | 57,961 | 54,583 |
| Accrued interest | 23,928 | 49,071 |
| Customer deposits | 28,410 | 34,235 |
| Deferred revenue | 19,966 | 16,504 |
| Obligation for claim payment | 46,063 | 56,002 |
| Current portion of finance lease obligations | 15,961 | 17,498 |
| Current portion of operating lease obligations | 27,368 | — |
| Current portion of long-term debt | 32,821 | 29,237 |
| **Total current liabilities** | **417,622** | **432,722** |
| Long-term debt, net of current maturities | 1,336,152 | 1,306,423 |
| Finance lease obligations, net of current portion | 27,231 | 26,738 |
| Pension liability | 25,514 | 25,269 |
| Deferred income tax liabilities | 12,439 | 11,212 |
| Long-term income tax liability | 3,158 | 3,024 |
| Operating lease right-of-use liability, net of current portion | 78,290 | — |
| Other long-term liabilities | 6,747 | 15,400 |
| **Total liabilities** | **1,907,153** | **1,820,788** |
| Commitment and Contingencies (Note 9) | | |
| **Stockholders' equity (deficit)** | | |
| Common stock, par value of $0.0001 per share; 1,600,000,000 shares authorized; 152,692,140 shares issued and 150,142,955 outstanding at March 31, 2019 and December 31, 2018 | 15 | 15 |
| Preferred stock, par value of $0.0001 per share; 20,000,000 shares authorized; 4,569,233 shares issued and outstanding at March 31, 2019 and December 31, 2018 | 1 | 1 |
| Additional paid in capital | 482,018 | 482,018 |
| Less: common stock held in treasury, at cost; 2,549,185 shares at March 31, 2019 and December 31, 2018 | (10,342) | (10,342) |
| Equity-based compensation | 44,529 | 41,731 |
| Accumulated deficit | (707,787) | (678,563) |
| Accumulated other comprehensive loss: | | |
| Foreign currency translation adjustment | (3,173) | (6,565) |
| Unrealized pension actuarial losses, net of tax | (9,525) | (9,301) |
| Total accumulated other comprehensive loss | (12,698) | (15,866) |
| **Total stockholders' deficit** | **(204,264)** | **(181,006)** |
| **Total liabilities and stockholders' deficit** | **$ 1,702,889** | **$ 1,639,782** |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Operations**
**For the Three Months Ended March 31, 2019 and 2018**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| Revenue | $ 403,765 | $ 393,167 |
| Cost of revenue (exclusive of depreciation and amortization) | 306,882 | 293,792 |
| Selling, general and administrative expenses | 49,949 | 45,595 |
| Depreciation and amortization | 28,020 | 38,019 |
| Related party expense | 994 | 1,105 |
| **Operating income** | 17,920 | 14,656 |
| **Other expense (income), net:** | | |
| Interest expense, net | 38,899 | 38,017 |
| Sundry expense (income), net | 2,531 | (64) |
| Other income, net | 1,677 | (3,328) |
| **Net loss before income taxes** | (25,187) | (19,969) |
| Income tax (expense) benefit | (4,720) | (4,025) |
| **Net loss** | $ (29,907) | $ (23,994) |
| Cumulative dividends for Series A Preferred Stock | (914) | (914) |
| **Net loss attributable to common stockholders** | $ (30,821) | $ (24,908) |
| **Loss per share:** | | |
| Basic and diluted | $ (0.21) | $ (0.16) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Comprehensive Loss**
**For the Three Months Ended March 31, 2019 and 2018**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| **Net Loss** | $ (29,907) | $ (23,994) |
| **Other comprehensive income (loss), net of tax** | | |
| Foreign currency translation adjustments | 3,392 | (268) |
| Unrealized pension actuarial gains (losses), net of tax | (224) | (403) |
| **Total other comprehensive loss, net of tax** | $ (26,739) | $ (24,665) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Stockholders' Deficit**
**For the Three Months Ended March 31, 2019 and 2018**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Common Stock | | Preferred Stock | | Treasury Stock | | | | Accumulated Other Comprehensive Loss | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Additional Paid in Capital | Equity-Based Compensation | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | Accumulated Deficit | Total Stockholders' Deficit |
| **Balances at January 1, 2018** | **150,529,151** | **$ 15** | **6,194,233** | **$ 1** | **49,300** | **$ (249)** | **$ 482,018** | **$ 34,085** | **$ (194)** | **$ (11,054)** | **$ (514,628)** | **$ (10,006)** |
| **Implementation of ASU 2014-09 (Note 2)** | | | | | | | | | | | (1,419) | (1,419) |
| Net loss January 1 to March 31, 2018 | — | — | — | — | — | — | — | — | — | — | (23,994) | (23,994) |
| Equity-based compensation | — | — | — | — | — | — | — | 959 | — | — | — | 959 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (268) | — | — | (268) |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | (403) | — | (403) |
| Preferred shares converted to common | 1,986,767 | — | (1,625,000) | — | — | — | — | — | — | — | — | — |
| **Balances at March 31, 2018** | **152,515,918** | **$ 15** | **4,569,233** | **1** | **49,300** | **$ (249)** | **$ 482,018** | **$ 35,044** | **$ (462)** | **$ (11,457)** | **$ (540,041)** | **$ (35,131)** |

| | Common Stock | | Preferred Stock | | Treasury Stock | | | | Accumulated Other Comprehensive Loss | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Additional Paid in Capital | Equity-Based Compensation | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | Accumulated Deficit | Total Stockholders' Deficit |
| **Balances at January 1, 2019** | **150,142,955** | **$ 15** | **4,569,233** | **$ 1** | **2,549,185** | **$(10,342)** | **$ 482,018** | **$ 41,731** | **$ (6,565)** | **$ (9,301)** | **$ (678,563)** | **$ (181,006)** |
| Implementation of ASU 2016-02 (Note 4) | — | — | — | — | — | — | — | — | — | — | 683 | 683 |
| Net loss January 1 to March 31, 2019 | — | — | — | — | — | — | — | — | — | — | (29,907) | (29,907) |
| Equity-based compensation | — | — | — | — | — | — | — | 2,798 | — | — | — | 2,798 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | 3,392 | — | — | 3,392 |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | (224) | — | (224) |
| **Balances at March 31, 2019** | **150,142,955** | **$ 15** | **4,569,233** | **$ 1** | **2,549,185** | **$(10,342)** | **$ 482,018** | **$ 44,529** | **$ (3,173)** | **$ (9,525)** | **$ (707,787)** | **$ (204,264)** |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statement of Cash Flows**
**For the Three Months Ended March 31, 2019 and 2018**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss | $ (29,907) | $ (23,994) |
| Adjustments to reconcile net loss | | |
| Depreciation and amortization | 28,020 | 38,019 |
| Original issue discount and debt issuance cost amortization | 2,852 | 2,595 |
| Provision for doubtful accounts | 800 | 481 |
| Deferred income tax provision | 1,076 | 835 |
| Share-based compensation expense | 2,798 | 959 |
| Foreign currency remeasurement | 35 | (323) |
| Loss on sale of assets | 9 | 253 |
| Fair value adjustment for interest rate swap | 1,677 | (3,328) |
| Change in operating assets and liabilities, net of effect from acquisitions | | |
| Accounts receivable | (8,742) | (10,876) |
| Prepaid expenses and other assets | (632) | (5,567) |
| Accounts payable and accrued liabilities | (33,574) | (18,864) |
| Related party payables | (1,551) | (273) |
| **Net cash used in operating activities** | **(37,139)** | **(20,083)** |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | (5,572) | (5,957) |
| Additions to internally developed software | (1,879) | (1,092) |
| Additions to outsourcing contract costs | (5,561) | (1,596) |
| Proceeds from sale of assets | 7 | 2 |
| **Net cash used in investing activities** | **(13,005)** | **(8,643)** |
| **Cash flows from financing activities** | | |
| Repurchases of common stock | (2,872) | — |
| Proceeds from financing obligation | 566 | 1,863 |
| Cash paid for equity issue costs | — | (7,500) |
| Net borrowings under factoring agreement | 1,118 | — |
| Borrowings from revolver and swing-line loan | 51,000 | 25,000 |
| Repayments from revolver and swing-line loan | (21,000) | (25,000) |
| Principal payments on finance lease obligations | (5,077) | (4,803) |
| Principal payments on long-term obligations | (4,153) | (2,947) |
| **Net cash provided by (used in) financing activities** | **19,582** | **(13,387)** |
| Effect of exchange rates on cash | (32) | 55 |
| **Net decrease in cash and cash equivalents** | **(30,594)** | **(42,058)** |
| Cash, restricted cash, and cash equivalents | | |
| Beginning of period | 43,854 | 81,489 |
| End of period | $ 13,260 | $ 39,431 |
| **Supplemental cash flow data:** | | |
| Income tax payments, net of refunds received | $ 1,356 | $ 1,053 |
| Interest paid | 60,573 | 66,192 |
| **Noncash investing and financing activities:** | | |
| Assets acquired through right-of-use arrangements | 4,097 | 4,432 |
| Accrued capital expenditures | 809 | 1,101 |

Note: Amounts may not foot due to rounding.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Notes to the Condensed Consolidated Financial Statements**
*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*
(Unaudited)

**1. General**

These condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements as of and for the year ended December 31, 2018 included in the Exela Technologies, Inc. (the "Company," "Exela," "we," "our" or "us") annual report on Form 10-K for such period (the “2018 Form 10-K”).

The accompanying condensed consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America ("GAAP") and with the instructions to Form 10-Q and Rule 10-01 of Securities and Exchange Commission ("SEC") Regulation S-X as they apply to interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. These accounting principles require us to use estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from our estimates.

The condensed consolidated financial statements are unaudited, but in our opinion include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim period. The interim financial results are not necessarily indicative of results that may be expected for any other interim period or the fiscal year.

**Net Loss per Share**

Earnings per share ("EPS") is computed by dividing net loss available to holders of the Company's common stock, par value $0.0001 per share (“Common Stock”) by the weighted average number of shares of Common Stock outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock, using the more dilutive of the two-class method or if-converted method in periods of earnings. The two-class method is an earnings allocation method that determines earnings per share for Common Stock and participating securities. As the Company experienced net losses for the periods presented, the impact of the Company’s Series A Convertible Preferred Stock (“Series A Preferred Stock”) was calculated based on the if-converted method. Diluted EPS excludes all dilutive potential of shares of Common Stock if their effect is anti-dilutive.

For the three months ended March 31, 2019 outstanding shares of the Series A Preferred Stock, if converted would have resulted in an additional 5,586,344 shares of Common Stock outstanding, but were not included in the computation of diluted loss per share as their effects were anti-dilutive.

The Company was originally incorporated July 12, 2017 as a special purpose acquisition company under the name Quinpario Acquisition Corp 2 (“Quinpario”). The Company has not included the effect of 35,000,000 warrants sold in the Quinpario Initial Public Offering (“IPO”) in the calculation of net income (loss) per share. Warrants are considered anti-dilutive and excluded when the exercise price exceeds the average market value of the Company’s Common Stock price during the applicable period.

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 |
|---|---|---|
| Net loss attributable to common stockholders (A) | $ (30,821) | $ (24,908) |
| Weighted average common shares outstanding - basic and diluted (B) | 150,142,955 | 152,140,117 |
| **Loss Per Share:** | | |
| Basic and diluted (A/B) | $ (0.21) | $ (0.16) |

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**2. New Accounting Pronouncements**

**Recently Adopted Accounting Pronouncements**

Effective January 1, 2019, the Company adopted Accounting Standards Update ("ASU") no. 2016-02, *Leases (ASC 842)*. This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The Company adopted this guidance effective January 1, 2019, under the modified retrospective transition method provided by ASU 2018-11 with the following practical expedients below:

- Not to record the leases with an initial term of 12 months on the balance sheet; and
- Not to reassess the (1) definition of a lease, (2) lease classification, and (3) initial direct costs for existing leases during transition.

The adoption had a material impact on the Company's unaudited consolidated balance sheets, but did not have a material impact on the Company's unaudited consolidated income statements and unaudited consolidated statements of cash flows. The most significant impact was the recognition of right-of-use assets and lease liabilities for operating leases, while the Company's accounting for finance leases remained substantially unchanged. See Note 4 for relevant disclosures.

Effective January 1, 2019 the Company adopted ASU no. 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception.* Part I of this ASU addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this ASU addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the quarter ended March 31, 2019.

Effective January 1, 2019 the Company adopted ASU no. 2017-12, *Derivatives and Hedging (Topic 815); Targeted Improvements to Accounting for Hedging Activities.* The amendments in this ASU better align the risk management activities and financial reporting for these hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the quarter ended March 31, 2019.

Effective January 1, 2019 the Company adopted ASU no. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendments in this ASU address a narrow-scope financial reporting issue related to the tax effects that may become "stranded" in accumulated other comprehensive income ("AOCI") as a result of the Tax Cuts and Jobs Act ("TCJA"). An entity may elect to reclassify the income tax effects of the TCJA on items within AOCI to retained earnings. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the quarter ended March 31, 2019.

Effective January 1, 2019 the Company adopted ASU no. 2018-07, *Compensation—Stock Compensation (Topic 718):* Improvements to Nonemployee Share-Based Payment Accounting to amend the accounting for share-based payment awards issued to nonemployees. Under the revised guidance, the accounting for awards issued to nonemployees will be similar to the model for employee awards, except the ASU allows an entity to elect on an award-by-award basis to use

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the contractual term as the expected term assumption in the option pricing model, and the cost of the grant is recognized in the same period(s) and in the same manner as if the grantor had paid cash. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the quarter ended March 31, 2019.

**Recently Issued Accounting Pronouncements**

In June 2016, the FASB issued ASU no. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* to replace the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The standard will be effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2018, the FASB issued ASU no. 2018-13, *Fair Value Measurement (Topic 82*0); which changes the fair value measurement disclosure requirements of ASC 820. The amendments in this ASU are the result of a broader disclosure project called FASB Concepts Statement, Conceptual Framework for Financial Reporting. The FASB used the guidance in the Concepts Statement to improve the effectiveness of ASC 820's disclosure requirements. The objective of the disclosure requirements in this subtopic is to provide users of financial statements with information about assets and liabilities measured at fair value in the statement of financial position or disclosed in the notes to financial statements. The ASU includes but is not limited to the valuation techniques and inputs that a reporting entity uses to arrive at its measures of fair value, including judgments and assumptions that the entity makes, the uncertainty in the fair value measurements as of the reporting date, and how changes in fair value measurements affect an entity's performance and cash flows. The ASU is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted for any eliminated or modified disclosures upon issuance of this ASU.

In August 2018, the FASB issued ASU no. 2018-15, *Intangibles, Goodwill, and Other - Internal Use Software (Subtopic 350-40): Customer's accounting for implementation costs incurred in a Cloud Computing Arrangement that is a service contract.* The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments also require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, which includes reasonably certain renewals. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

**3. Significant Accounting Policies**

The information presented below supplements the Significant Accounting Policies information presented in our 2018 Form 10-K, including Revenue Recognition for the adoption of ASC 606, which became effective January 1, 2018. See our 2018 Form 10-K for a description of our significant accounting policies in effect prior to the adoption of the new accounting standard.

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**Revenue Recognition**

We account for revenue in accordance with ASC 606. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. All of our material sources of revenue are derived from contracts with customers, primarily related to the provision of business and transaction processing services within each of our segments. We do not have any significant extended payment terms, as payment is received shortly after goods are delivered or services are provided.

***Nature of Services***

Our primary performance obligations are to stand ready to provide various forms of business processing services, consisting of a series of distinct services that are substantially the same and have the same pattern of transfer over time, and accordingly are combined into a single performance obligation. Our promise to our customers is typically to perform an unknown or unspecified quantity of tasks and the consideration received is contingent upon the customers' use (i.e., number of transactions processed, requests fulfilled, etc.); as such, the total transaction price is variable. We allocate the variable fees to the single performance obligation charged to the distinct service period in which we have the contractual right to bill under the contract.

***Disaggregation of Revenues***

The following tables disaggregate revenue from contracts by geographic region and by segment for the three months ended March 31, 2019 and March 31, 2018:

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | ITPS | HS | LLPS | ITPS | HS | LLPS |
| United States | $ 250,908 | $ 61,343 | $ 17,842 | $ 269,939 | $ 58,632 | $ 22,598 |
| Europe | 66,678 | — | — | 35,283 | — | — |
| Other | 6,994 | — | — | 6,715 | — | — |
| Total | $ 324,580 | $ 61,343 | $ 17,842 | $ 311,937 | $ 58,632 | $ 22,598 |

***Contract Balances***

The following table presents contract assets and contract liabilities recognized at March 31, 2019 and December 31, 2018:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Accounts receivable, net | $ 278,064 | $ 270,812 |
| Deferred revenues | 20,322 | 16,940 |
| Costs to obtain and fulfill a contract | 21,964 | 18,624 |
| Customer deposits | 28,410 | 34,235 |

Accounts receivable, net includes $43.1 million and $39.5 million as of March 31, 2019 and December 31, 2018, respectively, representing amounts not billed to customers. We have accrued the unbilled receivables for work performed in accordance with the terms of contracts with customers.

Deferred revenues relate to payments received in advance of performance under a contract. A significant portion of this balance relates to maintenance contracts or other service contracts where we received payments for upfront conversions or implementation activities which do not transfer a service to the customer but rather are used in fulfilling the related performance obligations that transfer over time. The advance consideration received from customers is deferred over the

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contract term. We recognized revenue of $6.4 million during the three months ended March 31, 2019 that had been deferred as of December 31, 2018.

Costs incurred to obtain and fulfill contracts are deferred and expensed on a straight-line basis over the estimated benefit period. We recognized $2.2 million of amortization for these costs in the first three months of 2019 within depreciation and amortization expense. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or transition activities and can be separated into two principal categories: contract commissions and transition/set-up costs. Examples of such capitalized costs include hourly labor and related fringe benefits and travel costs. Applying the practical expedient in ASC 340-40-25-4, we recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period would have been one year or less. These costs are included in Selling, general and administrative expenses. The effect of applying this practical expedient was not material.

Customer deposits consist primarily of amounts received from customers in advance for postage. The majority of the amounts recorded as of December 31, 2018 were used to pay for postage with the corresponding postage revenue being recognized during the three months ended March 31, 2019.

***Performance Obligations***

At the inception of each contract, we assess the goods and services promised in our contracts and identify each distinct performance obligation. The majority of our contracts have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts. For the majority of our business and transaction processing service contracts, revenues are recognized as services are provided based on an appropriate input or output method, typically based on the related labor or transactional volumes.

Certain of our contracts have multiple performance obligations, including contracts that combine software implementation services with post-implementation customer support. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we estimate our expected costs of satisfying a performance obligation and add an appropriate margin for that distinct good or service. We also use the adjusted market approach whereby we estimate the price that customers in the market would be willing to pay. In assessing whether to allocate variable consideration to a specific part of the contract, we consider the nature of the variable payment and whether it relates specifically to its efforts to satisfy a specific part of the contract. Certain of our software implementation performance obligations are satisfied at a point in time, typically when customer acceptance is obtained.

When evaluating the transaction price, we analyze, on a contract-by-contract basis, all applicable variable consideration. The nature of our contracts give rise to variable consideration, including volume discounts, contract penalties, and other similar items that generally decrease the transaction price. We estimate these amounts based on the expected amount to be provided to customers and reduce revenues recognized. We do not anticipate significant changes to our estimates of variable consideration.

We include reimbursements from customers, such as postage costs, in revenue, while the related costs are included in cost of revenue.

***Transaction Price Allocated to the Remaining Performance Obligations***

In accordance with optional exemptions available under ASC 606, we did not disclose the value of unsatisfied performance obligations for (1) contracts with an original expected length of one year or less, and (2) contracts for which variable consideration relates entirely to an unsatisfied performance obligation, which comprise the majority of our contracts. We have certain non-cancellable contracts where we receive a fixed monthly fee in exchange for a series of

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distinct services that are substantially the same and have the same pattern of transfer over time, with the corresponding remaining performance obligations as of March 31, 2019 in each of the future periods below:

| Estimated Remaining Fixed Consideration for Unsatisfied Performance Obligations | |
|---|---|
| Remainder of 2019 | $ 29,108 |
| 2020 | 23,170 |
| 2021 | 14,412 |
| 2022 | 5,389 |
| 2023 | 1,785 |
| 2024 and thereafter | 820 |
| Total | $ 74,684 |

**4. Leases**

The following table summarizes the impact of the changes made to the January 1, 2019 consolidated balance sheet for the adoption of the new accounting standard pertaining to leases. The prior periods have not been restated and have been reported under the accounting standard in effect for those periods.

| | Balance at December 31, 2018 | Impact of Lease Standard | Balance at January 1, 2019 |
|---|---|---|---|
| Total assets | $1,639,782 | $ 102,651 | $ 1,742,433 |
| Total current liabilities | 432,722 | 25,304 | 458,026 |
| Total long-term liabilities | 1,820,788 | 79,703 | 1,900,491 |

The increase in total assets and total liabilities at March 31, 2019 from December 31, 2018 was primarily due to the impact from the adoption of the new accounting standard pertaining to lease arrangements. See Note 2 for additional information on the impact of the adoption of this standard.

The Company determines if a contract is, or contains, a lease at contract inception. Operating leases are included in operating lease right-of-use ("ROU") assets, current portion of operating lease liabilities and operating lease liabilities, net of current portion in the Company's unaudited consolidated balance sheets. Finance leases are included in property and equipment, current portion of finance lease obligations and finance lease obligations, net of current portion in the Company's unaudited consolidated balance sheets.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. In addition, ROU assets include initial direct costs incurred by the lessee as well as any lease payments made at or before the commencement date, and exclude lease incentives. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Leases with a term of one year or less are generally not included in ROU assets and liabilities.

Operating lease ROU assets and operating lease liabilities are recorded on the consolidated balance sheet as follows:

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| | | March 31, 2019 |
|---|---|---|
| *Balance sheet location:* | | |
| **Operating Lease** | | |
| Operating lease right-of-use asset, net | $ | 100,727 |
| Current portion of operating lease obligations | | 27,368 |
| Operating lease right-of-use liability, net of current portion | | 78,290 |
| **Finance Lease** | | |
| Finance lease right-of-use asset, net (included in property, plant and equipment, net) | | 17,351 |
| Current portion of finance lease obligations | | 15,961 |
| Finance lease obligations, net of current portion | | 27,231 |

As of March 31, 2019, weighted-average remaining lease term of operating leases and finance leases was 4.83 years and 3.49 years, respectively. The weighted-average discount rate for operating leases and finance leases was 9.80% and 7.85%, respectively.

The interest on financing lease liabilities for the three months ended March 31, 2019 was $0.8 million. The amortization expense on finance lease right-of-use assets for the three months ended March 31, 2019 was $3.4 million.

The following table summarizes maturities of finance and operating lease liabilities based on lease term as of March 31, 2019:

| | | Finance Leases | | Operating Leases |
|---|---|---|---|---|
| Remainder of 2019 | $ | 15,199 | $ | 20,636 |
| 2020 | | 12,876 | | 25,099 |
| 2021 | | 10,119 | | 20,194 |
| 2022 | | 4,529 | | 15,763 |
| 2023 | | 3,062 | | 11,671 |
| 2024 and thereafter | | 4,064 | | 21,253 |
| Total lease payments | | 49,849 | | 114,616 |
| Less: Imputed interest | | 6,657 | | 8,958 |
| Present value of lease liabilities | $ | 43,192 | $ | 105,658 |

At December 31, 2018, the Company had the following future minimum payments due under non-cancelable leases:

| | | Finance Leases | | Operating Leases |
|---|---|---|---|---|
| 2019 | $ | 20,080 | $ | 38,057 |
| 2020 | | 11,851 | | 29,346 |
| 2021 | | 9,018 | | 22,239 |
| 2022 | | 4,169 | | 16,782 |
| 2023 | | 2,244 | | 12,302 |
| 2024 and thereafter | | 3,617 | | 18,874 |
| Total minimum lease payments | $ | 50,979 | $ | 137,600 |
| Less: imputed interest | | 6,743 | | |
| Total net minimum lease payments | | 44,236 | | |
| Less: Current portion of obligations under finance leases | | 17,498 | | |
| Long-term portion of obligations under finance leases | $ | 26,738 | | |

Consolidated rental expense for all operating leases was $83.8 million for the year ended December 31, 2018. Consolidated rental expense for all operating leases was $15.1 million for the three months ended March 31, 2019.

The following table summarizes the cash paid and related right-of-use operating finance or operating lease recognized for the three months ended March 31, 2019.

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| | Three Months Ended March 31, 2019 |
|---|---|
| **Cash paid for amounts included in the measurement of lease liabilities:** | |
| Operating cash flows from finance leases | - |
| Operating cash flows from operating leases | 9,374 |
| Financing cash flows from finance leases | 5,077 |
| **Right-of-use lease assets obtained in the exchange for lease liabilities:** | |
| Operating leases | 2,904 |
| Finance leases | 4,097 |

**5. Intangibles Assets and Goodwill**

**Intangible Assets**

Intangible assets are stated at cost or acquisition-date fair value less accumulated amortization and consists of the following:

| | March 31, 2019 | | |
|---|---|---|---|
| | Gross Carrying Amount (a) | Amortization | Intangible Asset, net |
| Customer relationships | $ 507,944 | $ (203,822) | $ 304,122 |
| Developed technology | 89,053 | (86,651) | 2,402 |
| Trade names (b) | 9,400 | (3,100) | 6,300 |
| Outsource contract costs | 52,378 | (30,414) | 21,964 |
| Internally developed software | 39,000 | (6,881) | 32,119 |
| Trademarks | 23,378 | (23,370) | 8 |
| Non compete agreements | 1,350 | (1,350) | — |
| Assembled workforce | 4,473 | (280) | 4,193 |
| Purchased software | 26,749 | (446) | 26,303 |
| Intangibles, net | $ 753,725 | $ (356,314) | $ 397,411 |

| | December 31, 2018 | | |
|---|---|---|---|
| | Gross Carrying Amount (a) | Amortization | Intangible Asset, net |
| Customer relationships | $ 507,905 | $ (190,666) | $ 317,239 |
| Developed technology | 89,053 | (85,967) | 3,086 |
| Trade names (b) | 9,400 | (3,100) | 6,300 |
| Outsource contract costs | 46,342 | (27,719) | 18,623 |
| Internally developed software | 36,820 | (6,278) | 30,542 |
| Trademarks | 23,379 | (23,370) | 9 |
| Non compete agreements | 1,350 | (1,350) | — |
| Assembled workforce | 4,473 | — | 4,473 |
| Purchased software | 26,749 | — | 26,749 |
| Intangibles, net | $ 745,471 | $ (338,450) | $ 407,021 |

(a) Amounts include intangible assets acquired in business combinations.
(b) The carrying amount of trade names for 2019 and 2018 is net of accumulated impairment losses of $43.1 million, of which $3.7 million was recognized in 2018.

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**Goodwill**

Goodwill by reporting segment consists of the following:

| | Goodwill | Additions | Reductions | Currency Translation Adjustments | Goodwill (a) |
|---|---|---|---|---|---|
| ITPS | $ 566,215 | $ 5,580 (c) | $ | $ (220) | $ 571,575 |
| HS | 86,786 | | | | 86,786 |
| LLPS | 94,324 | | (44,427)(b) | | 49,897 |
| **Balance as of December 31, 2018** | $ 747,325 | $ 5,580 | $ (44,427) | $ (220) | $ 708,258 |
| ITPS | 571,575 | | | 27 | 571,602 |
| HS | 86,786 | | | | 86,786 |
| LLPS | 49,897 | | | | 49,897 |
| **Balance as of March 31, 2019** | $ 708,258 | $ — | $ — | $ 27 | $ 708,285 |

(a) The goodwill amount for all periods presented is net of accumulated impairment losses of $137.9 million.
(b) The reduction in goodwill is due to $44.4 million, including taxes, for impairment recorded in the fourth quarter of 2018.
(c) Addition to goodwill due to the acquisition of Asterion International Group ("Asterion" and, "Asterion Business Combination") and immaterial acquisitions in the third and fourth quarters of 2018.

**6. Long-Term Debt and Credit Facilities**

**Senior Secured Notes**

On July 12, 2017, the Company issued $1.0 billion in aggregate principal amount of 10.0% First Priority Senior Secured Notes due 2023 with an original issue discount ("OID") of $22.5 million (the "Notes"). The Notes are guaranteed by certain subsidiaries of the Company. The Notes bear interest at a rate of 10.0% per year. The Company pays interest on the Notes on January 15 and July 15 of each year, commencing on January 15, 2018. The Notes will mature on July 15, 2023.

**Senior Credit Facilities**

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the "Credit Agreement") providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, a (i) $350.0 million senior secured term loan maturing July 12, 2023 with an OID of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022, $30.0 million of which is currently drawn. As of March 31, 2019 and December 31, 2018, the Company had outstanding irrevocable letters of credit totaling approximately $21.0 million and $20.6 million, respectively, under the senior secured revolving facility.

The Credit Agreement provides for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company's option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity.

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**Term Loan Repricing**

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the “Repricing”). The Repricing was accomplished pursuant to a First Amendment to First Lien Credit Agreement (the “First Amendment”), dated as of July 13, 2018, by and among the Company’s subsidiaries Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each “Subsidiary Loan Party” listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto, whereby the Company borrowed $343.4 million of refinancing term loans (the “Repricing Term Loans”) to refinance the Company’s existing senior secured term loans.

In accordance with ASC 470 -- Debt -- Modifications and Extinguishments, as a result of certain lenders that participated in Exela's debt structure prior to the Term Loan Repricing and the Company's debt structure after the refinancing, it was determined that a portion of the refinancing of Exela's senior secured credit facilities would be accounted for as a debt modification, and the remaining would be accounted for as an extinguishment. The Company incurred $1.0 million in new debt issuance costs related to the refinancing, of which $1.0 million was expensed pursuant to modification accounting. The proportion of debt that was extinguished resulted in a write off of previously recognized debt issue costs of $0.1 million. Additionally, for the new lenders who exceeded the 10% test, less than $0.1 million was recorded as additional debt issue costs. All unamortized costs and discounts will be amortized over the life of the new term loan using the effective interest rate of the term loan.

The Repricing Term Loans will bear interest at a rate per annum of, at the Company’s option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin of 6.50% for LIBOR loans and 5.50% for base rate loans. The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the Credit Agreement. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

**Incremental Term Loan**

On July 13, 2018, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the “Incremental Term Loans”) under the First Amendment. The proceeds of the Incremental Term Loans may be used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment. The interest rates applicable to the Incremental Term Loans are the same as those for the Repricing Term Loans.

The Company may voluntarily repay the Repricing Term Loans and the Incremental Term Loans (collectively, the “Term Loans”) at any time, without prepayment premium or penalty, except in connection with a repricing event as described in the following sentence, subject to customary “breakage” costs with respect to LIBOR rate loans. Any refinancing of the Term Loans through the issuance of certain debt or any repricing amendment, in either case, that constitutes a “repricing event” applicable to the Term Loans resulting in a lower yield occurring at any time during the first six months after July 13, 2018 will be accompanied by a 1.00% prepayment premium or fee, as applicable.

Other than as described above, the terms, conditions and covenants applicable to the Repricing Term Loans and the Incremental Term Loans are consistent with the terms, conditions and covenants that were applicable to the Existing Term Loans under the Credit Agreement. The Repricing and issuance of the Incremental Term Loans resulted in a partial debt extinguishment, for which Exela recognized $1.1 million in debt extinguishment costs in the third quarter of 2018. See Note 15, Subsequent Events, for information on an additional incremental term loan under the Credit Agreement that occurred after March 31, 2019.

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**Long-Term Debt Outstanding**

As of March 31, 2019 and December 31, 2018, the following long-term debt instruments were outstanding:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Other (a) | 28,334 | 25,321 |
| First lien credit agreement (b) | 335,104 | 335,896 |
| Senior secured notes (c) | 975,535 | 974,443 |
| Revolver | 30,000 | — |
| Total debt | 1,368,973 | 1,335,660 |
| Less: Current portion of long-term debt | (32,821) | (29,237) |
| Long-term debt, net of current maturities | $ 1,336,152 | $ 1,306,423 |

(a) Other debt represents the Company’s outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company.
(b) Net of unamortized original issue discount and debt issuance costs of $7.9 million and $23.3 million as of March 31, 2019 and $8.3 million and $24.5 million as of December 31, 2018.
(c) Net of unamortized debt discount and debt issuance costs of $17.5 million and $7.0 million as of March 31, 2019 and $18.2 million and $7.3 million as of December 31, 2018.

**7. Income Taxes**

The Company applies an estimated annual effective tax rate (“ETR”) approach for calculating a tax provision for interim periods, as required under GAAP. The Company recorded an income tax expense of $4.7 million and $4.0 million for the three months ended March 31, 2019 and 2018, respectively.

The Company's ETR of (18.7%) for the three months ended March 31, 2019 differed from the expected U.S. statutory tax rate of 21.0% and was primarily impacted by permanent tax adjustments, state and local current expense, foreign operations, and valuation allowances, including valuation allowances on a portion of the Company’s deferred tax assets on U.S. disallowed interest expense carryforward’s created by the provisions of the TCJA.

For the three months ended March 31, 2018, the Company’s ETR of (20.2%) differed from the expected U.S. statutory tax rate of 21.0%, and was primarily impacted by permanent tax adjustments, state and local current expense, foreign operations, and valuation allowances, including valuation allowances on a portion of the Company’s U.S. disallowed interest expense carryforward’s created by the provisions of the TCJA.

As of March 31, 2019, there were no material changes to either the nature or the amounts of the uncertain tax positions previously determined for the year ended December 31, 2018. The Company's valuation allowances have increased by approximately $6.3 million from December 31, 2018 to March 31, 2019 due largely to effects of TCJA relating to interest expense.

**8. Employee Benefit Plans**

**German Pension Plan**

The Company’s subsidiary in Germany provides pension benefits to certain retirees. Employees eligible for participation include all employees who started working for the Company prior to September 30, 1987 and have finished a qualifying period of at least 10 years. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan. The German pension plan is an unfunded plan and therefore has no plan assets.

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**U.K. Pension Plan**

The Company's subsidiary in the United Kingdom provides pension benefits to certain retirees and eligible dependents. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to October 2001. A retirement pension or a lump-sum payment may be paid dependent upon length of service at the mandatory retirement age. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

**Norway Pension Plan**

The Company's subsidiary in Norway provides pension benefits to eligible retirees and eligible dependents. Employees eligible for participation include all employees who were more than three years from retirement prior to March 2018. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

**Asterion Pension Plan**

The Company acquired certain pension benefit obligations to eligible retirees and eligible dependents in 2018 pursuant to the Asterion Business Combination. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to July 2003. A retirement pension or a lump-sum payment may be paid dependent upon length of service at the mandatory retirement age. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. As there are no active employees for this plan there are no earned pension entitlements and actuarial assumptions are only measured when assumptions are changed.

**Tax Effect on Accumulated Other Comprehensive Loss**

As of March 31, 2019 and December 31, 2018 the Company recorded actuarial losses of $9.5 million and $9.3 million in accumulated other comprehensive loss on the condensed consolidated balance sheets, respectively, which is net of a deferred tax benefit of $2.1 million.

**Pension Expense**

The components of the net periodic benefit cost are as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Service cost | $ 23 | $ 2 |
| Interest cost | 605 | 586 |
| Expected return on plan assets | (626) | (719) |
| Amortization: | | |
| Amortization of prior service cost | 26 | (36) |
| Amortization of net (gain) loss | 415 | 463 |
| Net periodic benefit cost | $ 443 | $ 296 |

Upon adopting ASU no. 2017-07 as described in Note 2, the Company now records pension interest cost within Interest expense, net. Expected return on plan assets, amortization of prior service costs, and amortization of net losses are recorded within Other income, net. Service cost is recorded within Cost of revenue.

**Employer Contributions**

The Company's funding of employer contributions is based on governmental requirements and differs from those methods used to recognize pension expense. The Company made contributions of $0.8 million and $0.6 million to its

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pension plans during the three months ended March 31, 2019 and 2018, respectively. The Company has funded the pension plans with the required contributions for 2019 based on current plan provisions.

**9. Commitments and Contingencies**

**Appraisal Demand**

On September 21, 2017, former stockholders of SourceHOV Holdings, Inc. ("SourceHOV"), who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the acquisition of SourceHOV and Novitex Holdings, Inc, by Quinpario in July 2017 ("Novitex Business Combination"), which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their SourceHOV shares at the time of the Novitex Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). Trial is currently scheduled for June 2019. The parties and their experts have offered competing valuations of the SourceHOV shares as of the date of the Novitex Business Combination. The Court may determine a fair value that is above or below the values indicated by the parties and their experts. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate what the Court will determine the fair value of SourceHOV common stock to be as of the date of the Novitex Business Combination. Pursuant to the terms of the Novitex Business Combination Agreement, if such appraisal rights are perfected, a corresponding portion of shares of our Common Stock issued to Ex-Sigma 2 LLC, our principal stockholder, will be forfeited at such time as the PIPE Financing (as defined in the Consent, Waiver and Amendment dated June 15, 2017) is repaid. The Company intends to vigorously defend against the Appraisal Action.

**10. Fair Value Measurement**

**Assets and Liabilities Measured at Fair Value**

The carrying amount of assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable approximated their fair value as of March 31, 2019 and December 31, 2018 due to the relative short maturity of these instruments. Management estimates the fair values of the secured term loan and secured notes at approximately 99.6% and 101.8% respectively, of the respective principal balance outstanding as of March 31, 2019. The carrying value approximates the fair value for the long-term debt. Other debt represents the Company's outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company and as such, the cost incurred would approximate fair value. Property and equipment, intangible assets, capital lease obligations, and goodwill are not required to be re-measured to fair value on a recurring basis. These assets are evaluated for impairment if certain triggering events occur. If such evaluation indicates that impairment exists, the respective asset is written down to its fair value.

The Company determined the fair value of its long-term debt using Level 2 inputs including the recent issue of the debt, the Company's credit rating, and the current risk-free rate. The Company's contingent liabilities related to prior acquisitions are re-measured each period and represent a Level 2 measurement as it is based on using an earn out method based on the agreement terms.

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The following table provides the carrying amounts and estimated fair values of the Company's financial instruments as of March 31, 2019 and December 31, 2018:

| As of March 31, 2019 | Carrying Amount | Fair Value | Fair Value Measurements Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| Recurring and nonrecurring assets and liabilities: | | | | | |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |
| Long-term debt | 1,336,152 | 1,377,941 | — | 1,377,941 | — |
| Interest rate swap | 2,160 | 2,160 | — | 2,160 | — |
| Goodwill | 708,285 | 708,285 | — | — | 708,285 |
| **As of December 31, 2018** | **Carrying Amount** | **Fair Value** | **Fair Value Measurements Level 1** | **Level 2** | **Level 3** |
| Recurring and nonrecurring assets and liabilities: | | | | | |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |
| Long-term debt | 1,306,423 | 1,316,306 | — | 1,316,306 | — |
| Interest rate swap | 3,836 | 3,836 | — | 3,836 | — |
| Goodwill | 708,258 | 708,258 | — | — | 708,258 |

The significant unobservable inputs used in the fair value of the Company's acquisition contingent liability are the discount rate, growth assumptions, and revenue thresholds. Significant increases (decreases) in the discount rate would have resulted in a lower (higher) fair value measurement. Significant increases (decreases) in the forecasted financial information would have resulted in a higher (lower) fair value measurement. For all significant unobservable inputs used in the fair value measurement of the Level 3 liabilities, a change in one of the inputs would not necessarily result in a directionally similar change in the other based on the current level of billings.

The following table reconciles the beginning and ending balances of net assets and liabilities classified as Level 3 for which a reconciliation is required:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Balance as of January 1, | $ 721 | $ 721 |
| Payments/Reductions | — | — |
| Balance as of March 31, | $ 721 | $ 721 |

**11. Stock-Based Compensation**

At closing of the Novitex Business Combination, SourceHOV had 24,535 restricted stock units ("RSUs") outstanding under its 2013 Long Term Incentive Plan ("2013 Plan"). Simultaneous with the closing of the Novitex Business Combination, the 2013 Plan, as well as all vested and unvested RSUs under the 2013 Plan, were assumed by Ex-Sigma, LLC ("ExSigma"), an entity formed by the former SourceHOV equity holders, which is also the Company's principal stockholder. In accordance with GAAP, the Company continues to incur compensation expense related to the 9,880 unvested RSUs as of July 12, 2017 on a straight-line basis until fully vested, as the recipients of the RSUs are employees of the Company. Subject to continuous employment and other terms of the 2013 Plan, all remaining unvested RSUs with an initial vesting period of three or four years will vest in April 2019. As of March 31, 2019 there are 2,675 nonvested shares related to the 2013 Plan with a weighted average remaining contractual life of .08 years and a weighted average aggregate intrinsic value per share of $1,633.

**Exela 2018 Stock Incentive Plan**

On January 17, 2018, Exela's 2018 Stock Incentive Plan (the "2018 Plan") became effective. The 2018 Plan provides for the grant of incentive and nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights,

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performance awards, and other stock-based compensation to eligible participants. Under the 2018 Plan, stock options are granted at a price per share not less than 100% of the fair market value per share of the underlying stock at the grant date. The vesting period for each option award is established on the grant date, and the options generally expire 10 years from the grant date. The Company is authorized to issue up to 8,323,764 shares of Common Stock under the 2018 Plan.

**Restricted Stock Unit Grants**

Restricted stock awards generally vest ratably over a one to two year period. Shares of restricted stock granted under the 2018 Plan are considered issued and outstanding at the date of grant and have the same voting rights as other outstanding common stock. Restricted stock units are subject to forfeiture if employment terminates prior to vesting and are expensed ratably over the vesting period. No awards were issued under the 2018 Plan as of March 31, 2018.

A summary of the status of restricted stock units related to the 2018 Plan as of March 31, 2019 is presented as follows:

| | Number of Shares | Weighted Average Grant Date Fair Value | Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value ($) |
|---|---|---|---|---|
| Balance as of December 31, 2018 | 893,297 | 5.86 | 0.76 | 5,239 |
| Shares granted | — | — | — | — |
| Shares forfeited | (48,000) | — | — | — |
| Shares vested | — | — | — | — |
| Balance as of March 31, 2019 | 845,297 | $ 6.12 | 0.55 | $ 4,952 |

**Options**

Options are granted at not less than fair market value on the date of grant and expire no later than ten years after the date of grant. Options granted under the 2018 Plan generally require no less than a two or four year ratable vesting period. There was no stock option activity for the three months ended March 31, 2018. Stock option activity in the first three months of 2019 is summarized in the following table:

| | Outstanding | Weighted Average Exercise Price | Average Remaining Vesting Period (Years) | Aggregate Intrinsic Value ($) |
|---|---|---|---|---|
| Balance as of December 31, 2018 | 3,570,300 | $ 6.06 | 2.92 | 9,590 |
| Granted | — | — | — | — |
| Exercised | — | — | — | — |
| Forfeited | (192,000) | — | — | — |
| Expired | — | — | — | — |
| Balance as of March 31, 2019 | 3,378,300 | $ 6.07 | 2.71 | $ 9,074 |

As of March 31, 2019, there was approximately $10.3 million of total unrecognized compensation expense related to non-vested awards for the 2013 Plan and 2018 Plan, which will be recognized over the respective service period.

Stock-based compensation expense is recorded within Selling, general, and administrative expenses. The Company incurred total compensation expense of $1.0 million and $1.8 related to the 2013 Plan and 2018 Plan awards, respectively, for the three months ended March 31, 2019.

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**12. Stockholders' Equity**

The following description summarizes the material terms and provisions of the securities that the Company has authorized.

**Common Stock**

The Company is authorized to issue 1,600,000,000 shares of Common Stock. Except as otherwise required by law or as otherwise provided in any certificate of designation for any series of preferred stock, the holders of Common Stock possess all voting power for the election of Exela's directors and all other matters requiring stockholder action and will at all times vote together as one class on all matters submitted to a vote of Exela stockholders. Holders of Common Stock are entitled to one vote per share on matters to be voted on by stockholders. Holders of Common Stock will be entitled to receive such dividends and other distributions, if any, as may be declared from time to time by the board of directors in its discretion out of funds legally available therefor and shall share equally on a per share basis in such dividends and distributions. The holders of the Common Stock have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the Common Stock. In January 2018, 1,625,000 shares of Series A Preferred Stock were converted into 1,987,767 shares of Common Stock. As of March 31, 2019 and December 31, 2018, there were 152,692,140 shares of Common Stock issued and 150,142,955 shares outstanding.

**Preferred Stock**

The Company is authorized to issue 20,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors. At March 31, 2019 and December 31, 2018, the Company had 4,569,233 shares of Series A Preferred Stock outstanding. The par value of Series A Preferred Stock is $0.0001 per share. Each share of Series A Preferred Stock will be convertible at the holder's option, at any time after the six-month anniversary and prior to the third anniversary of the issue date, initially into 1.2226 shares of Common Stock.

Holders of the Series A Preferred Stock will be entitled to receive cumulative dividends at a rate per annum of 10% of the Liquidation Preference per share of Series A Preferred Stock, paid or accrued quarterly in arrears. From the issue date until the third anniversary of the issue date, the amount of all accrued but unpaid dividends on the Series A Preferred Stock will be added to the Liquidation Preference without any action by the Company's board of directors. For the three months ended March 31, 2019 and 2018 this amount was $0.9 million as reflected on the Consolidated Statement of Operations. The cumulative accrued but unpaid dividends of the Series A Preferred Stock since their inception on July 12, 2017 is $7.1 million. The per share average of cumulative preferred dividends for the three months ended March 31, 2019 and 2018 is 0.2 dollars.

Following the third anniversary of the issue date, dividends on the Series A Preferred Stock will be accrued by adding to the Liquidation Preference or paid in cash, or a combination thereof. In addition, holders of the Series A Preferred Stock will participate in any dividend or distribution of cash or other property paid in respect of the Common Stock pro rata with the holders of the Common Stock (other than certain dividends or distributions that trigger an adjustment to the conversion rate, as described in the Certificate of Designations), as if all shares of Series A Preferred Stock had been converted into Common Stock immediately prior to the date on which such holders of the Common Stock became entitled to such dividend or distribution.

**Treasury Stock**

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires in 24 months. The Share Buyback Program may be terminated or amended by the

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Company's board of directors in its discretion at any time. No shares were repurchased during the three months ended March 31, 2019 and 2018. As of March 31, 2019, 2,549,185 shares had been repurchased under the Share Buyback Program and are held in treasury stock. The Company records treasury stock using the cost method.

**Warrants**

At March 31, 2019 there were 34,988,302 warrants outstanding. As part of its IPO, Quinpario had issued 35,000,000 units including one share of common stock and one warrant of which 34,988,302 have been separated from the original unit and 11,698 warrants remain an unseparated part of the originally issued units. The warrants are traded on the OTC Bulletin Board as of March 31, 2019.

Each warrant entitles the holder to purchase one-half of one share of Common Stock at a price of $5.75 per half share ($11.50 per whole share). Warrants may be exercised only for a whole number of shares of Common Stock. No fractional shares will be issued upon exercise of the warrants. Each warrant is currently exercisable and will expire July 12, 2022 (five years after the completion of the Novitex Business Combination), or earlier upon redemption.

The Company may call the warrants for redemption at a price of $0.01 per warrant upon a minimum of 30 days' prior written notice of redemption, if, and only if, the last sales price of shares of Common Stock equals or exceeds $24.00 per share for any 20 trading days within a 30 trading day period (the "30-day trading period") ending three business days before we send the notice of redemption, and if, and only if, there is a current registration statement in effect with respect to the shares of Common Stock underlying such warrants commencing five business days prior to the 30-day trading period and continuing each day thereafter until the date of redemption.

**13. Related-Party Transactions**

**Leasing Transactions**

Certain operating companies lease their operating facilities from HOV RE, LLC and HOV Services Limited, which are affiliates through common interest held by Ex-Sigma 2 LLC, our largest stockholder. The rental expense for these operating leases was $0.1 million and $0.2 million for the three months ended March 31, 2019 and 2018, respectively.

**Consulting Agreement**

The Company receives services from Oakana Holdings, Inc. The Company and Oakana Holdings, Inc. are related through a family relationship between certain shareholders and the president of Oakana Holdings, Inc. The expense recognized for these services was $0.1 million for the three months ended March 31, 2019 and 2018.

The Company received consulting services from Shadow Pond, LLC. Shadow Pond, LLC is wholly owned and controlled by Vik Negi, our Executive Vice President Treasury and Business Affairs. The consulting arrangement was established to compensate Mr. Negi for his services to the Company prior to becoming an employee. The expense recognized for these services was $0.1 million for the three months ended March 31, 2018. This consulting arrangement with Shadow Pond, LLC terminated on April 1, 2018 and Mr. Negi continues to provide services as an employee of the Company. As such, there were no additional expenses for the three months ended March 31, 2019.

**Relationship with HandsOn Global Management**

Pursuant to a master agreement dated January 1, 2015 between Rule 14, LLC and SourceHOV, the Company incurs marketing fees to Rule 14, LLC, a portfolio company of HOVS LLC and HandsOn Fund 4 I, LLC ("HGM"). Similarly, SourceHOV is party to ten master agreements with entities affiliated with HGM's managed funds, each of which were entered into during 2015 and 2016. Each master agreement provides SourceHOV with free use of technology and includes a reseller arrangement pursuant to which SourceHOV is entitled to sell these services to third parties. Any revenue earned by SourceHOV in such third-party sale is shared 75%/25% with each of HGM's venture affiliates in favor of SourceHOV. The brands Zuma, Athena, Peri, BancMate, Spring, Jet, Teletype, CourtQ and Rewardio are part of the HGM managed funds. SourceHOV has the license to use and resell such brands, as described therein. We incurred

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fees relating to these agreements of less than $0.1 million and $0.2 million for the three months ended March 31, 2019 and 2018, respectively.

**Relationship with HOV Services, Ltd.**

HOV Services, Ltd. provides the Company data capture and technology services. HOV Services, Ltd is an indirect equity holder of Ex-Sigma LLC. The expense recognized for these services was $0.4 million and $0.4 million for the three months ended March 31, 2019 and 2018, respectively. These expenses are included in cost of revenue in the consolidated statements of operations.

**Relationship with Apollo Global Management, LLC**

The Company provides services to and receives services from certain Apollo Global Management, LLC (“Apollo”) affiliated companies. Funds managed by Apollo have the right to designate two of the Company’s directors. On November 18, 2014, the Company's subsidiary, Exela Enterprises Solutions, Inc. (“Solutions”), entered into a master services agreement with Management Holdings, an indirect wholly owned subsidiary of Apollo. Pursuant to this master services agreement, Solutions provides Management Holdings printer supplies and maintenance services, including toner maintenance, training, quarterly business review and printer procurement. We recognized revenue of $0.1 million and $0.1 million in our consolidated statements of operations from Apollo affiliated companies under this agreement for the three months ended March 31, 2019 and 2018, respectively.

On January 18, 2017, Solutions entered into a master purchase and professional services agreement with Caesars Enterprise Services, LLC ("Caesars"). Caesars is controlled by investment funds affiliated with Apollo. Pursuant to this master purchase and professional services agreement, Solutions provides managed print services to Caesars, including general equipment operation, supply management, support services and technical support. We recognized revenue of approximately $1.1 million and $1.0 million in our consolidated statements of operations from Caesars under this master purchase and professional services agreement for the three months ended March 31, 2019 and 2018, respectively.

On May 5, 2017, Solutions entered into a master services agreement with ADT LLC. ADT LLC is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Solutions provides ADT LLC with mailroom and onsite mail delivery services at an ADT LLC office location and managed print services, including supply management, equipment maintenance and technical support services. We recognized revenue of $0.3 million and $0.1 million in our consolidated statements of operations from ADT LLC under this master services agreement for the three months ended March 31, 2019 and 2018, respectively.

On July 20, 2017, Solutions entered into a master services agreement with Diamond Resorts Centralized Services Company. Diamond Resorts Centralized Services Company is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Solutions provides commercial print and promotional product procurement services to Diamond Resorts Centralized Services Company, including sourcing, inventory management and fulfillment services. The Company recognized revenue of $1.7 million and $2.4 million for the three months ended March 31, 2019 and 2018, respectively, and cost of revenue of $0.1 million and $0.1 million for the three months ended March 31, 2019 and 2018 respectively, from Diamond Resorts Centralized Services Company under this master services agreement.

In April 2016, Solutions entered into a master services agreement with Presidio Networked Solutions Group, LLC ("Presidio Group"), a wholly owned subsidiary of Presidio, Inc., a portion of which is owned by affiliates of Apollo and with a common Apollo designated director. Pursuant to this master services agreement, Presidio Group provides Solutions with employees, subcontractors, and/or goods and services. For the three months ended March 31, 2019 and 2018 there were related party expenses of $0.2 million and $0.1 million, respectively, for this service.

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**Payable Balances with Affiliates**

Payable balances with affiliates as of March 31, 2019 and December 31, 2018 are as follows:

| | March 31, 2019 Payable | December 31, 2018 Payable |
|---|---|---|
| HOV Services, Ltd | $ 367 | $ 405 |
| Rule 14 | 110 | 127 |
| HGM | 5,450 | 6,998 |
| Apollo affiliated company | 241 | 205 |
| Oakana | 16 | — |
| | $ 6,184 | $ 7,735 |

**14. Segment and Geographic Area Information**

The Company's operating segments are significant strategic business units that align its products and services with how it manages its business, approach the markets and interacts with its clients. The Company is organized into three segments: ITPS, HS, and LLPS.

**ITPS:** The ITPS segment provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries.

**HS:** The HS segment operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets.

**LLPS:** The LLPS segment provides a broad and active array of legal services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters.

The chief operating decision maker reviews operating segment revenue and cost of revenue. The Company does not allocate Selling, general, and administrative expenses, depreciation and amortization, interest expense and sundry, net. The Company manages assets on a total company basis, not by operating segment, and therefore asset information and capital expenditures by operating segments are not presented.

| | Three months ended March 31, 2019 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | 324,580 | 61,343 | 17,842 | 403,765 |
| Cost of revenue | 257,388 | 38,506 | 10,988 | 306,882 |
| Selling, general and administrative expenses | | | | 49,949 |
| Depreciation and amortization | | | | 28,020 |
| Related party expense | | | | 994 |
| Interest expense, net | | | | 38,899 |
| Sundry expense (income), net | | | | 2,531 |
| Other income, net | | | | 1,677 |
| **Net loss before income taxes** | | | | $ (25,187) |

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| | Three months ended March 31, 2018 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | 311,937 | 58,632 | 22,598 | 393,167 |
| Cost of revenue | 245,173 | 34,956 | 13,663 | 293,792 |
| Selling, general and administrative expenses | | | | 45,595 |
| Depreciation and amortization | | | | 38,019 |
| Related party expense | | | | 1,105 |
| Interest expense, net | | | | 38,017 |
| Sundry expense, net | | | | (64) |
| Other income, net | | | | (3,328) |
| **Net loss before income taxes** | | | | $ (19,969) |

**15. Subsequent Events**

**2019 Incremental Term Loan**

On April 16, 2019, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the "2019 Incremental Term Loans") under the Second Amendment to First Lien Credit Agreement (the "Second Amendment"). The proceeds of the 2019 Incremental Term Loans were used to replace the cash spent for acquisitions, pay related fees, expenses and related borrowings and may also be used for general corporate purposes.

The 2019 Incremental Term Loans will bear interest at a rate per annum that is the same as the Company's existing senior secured term loans consisting of, at the Company's option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin of 6.50% for LIBOR loans and 5.50% for base rate loans. The 2019 Incremental Term Loans will mature on July 12, 2023, the same maturity date as the Repricing Term Loans and the Incremental Term Loans.

The Company may voluntarily repay the 2019 Incremental Term Loans at any time, without prepayment premium or penalty, subject to customary "breakage" costs with respect to LIBOR rate loans.

Other than as described above, the terms, conditions and covenants applicable to the 2019 Incremental Term Loans are consistent with the terms, conditions and covenants that were applicable to the Repricing Term Loans and Incremental Term Loans under the Credit Agreement and which are described in the registrant's Current Reports on Form 8-K filed with the Securities and Exchange Commission on July 18, 2017 and July 17, 2018.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion and analysis together with our condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q. Among other things, the condensed consolidated financial statements include more detailed information regarding the basis of presentation for the financial data than included in the following discussion. Amounts in thousands of United States dollars.*

***Forward Looking Statements***

*Certain statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this quarterly report are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by words such as "may", "should", "would", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "seem", "seek", "continue", "future", "will", "expect", "outlook" or other similar words, phrases or expressions. These forward-looking statements include statements regarding our industry, future events, the estimated or anticipated future results and benefits of the Novitex Business Combination, future opportunities for the combined company, and other statements that are not historical facts. These statements are based on the current expectations of Exela management and are not predictions of actual performance. These statements are subject to a number of risks and uncertainties regarding Exela's businesses and actual results may differ materially. The factors that may affect our results include, among others: the impact of political and economic conditions on the demand for our services; the impact of a data or security breach; the impact of competition or alternatives to our services on our business pricing and other actions by competitors; our ability to address technological development and change in order to keep pace with our industry and the industries of our customers; the impact of terrorism, natural disasters or similar events on our business; the effect of legislative and regulatory actions in the United States and internationally; the impact of operational failure due to the unavailability or failure of third-party services on which we rely; the effect of intellectual property infringement; and other factors discussed in this quarterly report and our Annual Report on Form 10-K for the year ended December 31, 2018 (our "Annual Report") under the heading "Risk Factors" as supplemented by risk factors described in Part II, "Item 1A. Risk Factors" of our quarterly report for the quarter ended March 31, 2019 and otherwise identified or discussed in this quarterly report. You should consider these factors carefully in evaluating forward-looking statements and are cautioned not to place undue reliance on such statements, which speak only as of the date of this quarterly report. It is impossible for us to predict new events or circumstances that may arise in the future or how they may affect us. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this quarterly report. We are not including the information provided on the websites referenced herein as part of, or incorporating such information by reference into, this quarterly report. In addition, forward-looking statements provide Exela's expectations, plans or forecasts of future events and views as of the date of this quarterly report. Exela anticipates that subsequent events and developments will cause Exela's assessments to change. These forward-looking statements should not be relied upon as representing Exela's assessments as of any date subsequent to the date of this quarterly report.*

**Overview**

We are a global provider of transaction processing solutions, enterprise information management, document management and digital business process services. Our technology-enabled solutions allow multi-national organizations to address critical challenges resulting from the massive amounts of data obtained and created through their daily global operations. Our solutions address the life cycle of transaction processing and enterprise information management, from enabling payment gateways and data exchanges across multiple systems, to matching inputs against contracts and handling exceptions, to ultimately depositing payments and distributing communications. We believe our process expertise, information technology capabilities and operational insights enable our clients' organizations to more efficiently and effectively execute transactions, make decisions, drive revenue and profitability, and communicate critical information to their employees, customers, partners, and vendors.

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**History**

We are a former blank check company that completed our initial public offering on January 22, 2015. In July 2017, Exela Technologies, Inc. ("Exela"), formerly known as Quinpario Acquisition Corp. 2 ("Quinpario"), completed its acquisition of SourceHOV Holdings, Inc. ("SourceHOV") and Novitex Holdings, Inc. ("Novitex") pursuant to the business combination agreement dated February 21, 2017 ("Novitex Business Combination"). In conjunction with the completion of the Novitex Business Combination, Quinpario was renamed as Exela Technologies, Inc.

The Novitex Business Combination was accounted for as a reverse merger for which SourceHOV was determined to be the accounting acquirer. Outstanding shares of SourceHOV were converted into equity in a newly formed entity that acquired our common shares, presented as a recapitalization, and the net assets of Quinpario were acquired at historical cost, with no goodwill or other intangible assets recorded. The acquisition of Novitex was treated as a business combination under ASC 805 and was accounted for using the acquisition method. The strategic combination of SourceHOV and Novitex formed Exela, which is one of the largest global providers of information processing solutions based on revenues.

**Our Segments**

Our three reportable segments are Information & Transaction Processing Solutions ("ITPS"), Healthcare Solutions ("HS"), and Legal & Loss Prevention Services ("LLPS"). These segments are comprised of significant strategic business units that align our TPS and EIM products and services with how we manage our business, approach our key markets and interact with our customers based on their respective industries.

**ITPS:** Our largest segment, ITPS, provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries. Our major customers include 9 of the top 10 U.S. banks, 7 of the top 10 U.S. insurance companies, 5 of the top U.S. telecom companies, over 40 utility companies, over 30 state and county departments, and over 80 government entities. Our ITPS offerings enable companies to increase availability of working capital, reduce turnaround times for application processes, increase regulatory compliance and enhance consumer engagement.

**HS:** HS operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets. We serve the top 5 healthcare insurance payers and over 900 healthcare providers.

**LLPS:** Our LLPS segment provides a broad and active array of support services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters. Our customer base consists of corporate counsel, government attorneys, and law firms.

**Acquisitions**

On April 10, 2018, Exela completed the acquisition of Asterion International Group ("Asterion"), a well-established provider of technology driven business process outsourcing, document management and business process automation ("BPA") across Europe. Asterion currently serves over 250 key customers in Europe from 13 operating locations and 30 customer sites. The purchase price was approximately $19.5 million. The acquisition comes with minimal customer overlap and is strategic to expand Exela's pro forma combined European business to over $200 million in annual revenue. This acquisition will not only enable Asterion's customers to access Exela's full suite of BPA solutions but also strategically position Exela to expand its existing revenue base through a broader portfolio of offerings with a larger European presence.

**Revenues**

ITPS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed, licensing and maintenance fees for technology sales, and a mix of fixed management fee and transactional

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revenue for document logistics and location services. HS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed for healthcare payers and providers. LLPS revenues are primarily based on time and materials pricing as well as through transactional services priced on a per item basis.

**People**

We draw on the business and technical expertise of our talented and diverse global workforce to provide our customers with high-quality services. Our business leaders bring a strong diversity of experience in our industry and a track record of successful performance and execution.

Costs associated with our employees represent the most significant expense for our business. We incurred personnel costs of $178.1 million and $167.1 million for the three months ended March 31, 2019 and 2018, respectively. The majority of our personnel costs are variable and incurred only while we are providing our services.

**Key Performance Indicators**

We use a variety of operational and financial measures to assess our performance. Among the measures considered by our management are the following:

- Revenue by segment;
- EBITDA; and
- Adjusted EBITDA

Revenue by segment

We analyze our revenue by comparing actual monthly revenue to internal projections and prior periods across our operating segments in order to assess performance, identify potential areas for improvement, and determine whether our segments are meeting management's expectations.

EBITDA and Adjusted EBITDA

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integrations costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses. See ''—Other Financial Information (Non-GAAP Financial Measures)'' for more information and a reconciliation of EBITDA and Adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP.

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**Results of Operations**

**Three Months Ended March 31, 2019 compared to Three Months Ended March 31, 2018:**

| | Three Months Ended March 31, 2019 | Three Months Ended March 31, 2018 | Change | % Change |
|---|---|---|---|---|
| Revenue: | | | | |
| ITPS | $ 324,580 | $ 311,937 | $ 12,643 | 4.05% |
| HS | 61,343 | 58,632 | 2,711 | 4.62% |
| LLPS | 17,842 | 22,598 | (4,756) | -21.05% |
| Total revenue | 403,765 | 393,167 | 10,598 | 2.70% |
| Cost of revenue (exclusive of depreciation and amortization): | | | | |
| ITPS | 257,388 | 245,173 | 12,215 | 4.98% |
| HS | 38,506 | 34,956 | 3,550 | 10.16% |
| LLPS | 10,988 | 13,663 | (2,675) | -19.58% |
| Total cost of revenues | 306,882 | 293,792 | 13,090 | 4.46% |
| Selling, general and administrative expenses | 49,949 | 45,595 | 4,354 | 9.55% |
| Depreciation and amortization | 28,020 | 38,019 | (9,999) | -26.30% |
| Related party expense | 994 | 1,105 | (111) | -10.02% |
| Operating income | 17,920 | 14,656 | 3,264 | 22.27% |
| Interest expense, net | 38,899 | 38,017 | 882 | 2.32% |
| Sundry expense (income), net | 2,531 | (64) | 2,595 | -4054.46% |
| Other (income), net | 1,677 | (3,328) | 5,005 | -150.38% |
| Net loss before income taxes | (25,187) | (19,969) | (5,218) | 26.13% |
| Income tax (expense) benefit | (4,720) | (4,025) | (695) | 17.27% |
| Net loss | (29,907) | (23,994) | (5,913) | 24.64% |

***Revenue***

Our ITPS, HS, and LLPS segments constituted 80.4%, 15.2%, and 4.4% of total revenue, respectively, for the three months ended March 31, 2019, compared to 79.3%, 15.1%, and 5.6%, respectively, for the three months ended March 31, 2018. The revenue changes by reporting segment were as follows:

ITPS—The increase was primarily attributable to 2018 acquisitions, which accounted for an increase of $31.3 million, and ramp up of new customers. This was offset by a decline of $16.6 million related to certain statements of work from one customer in the Enterprise solutions business.

HS—The increase was primarily attributable to an increase in our healthcare business due to ramp up of new customers and acquisitions, offset by a decline in business process outsourcing and a decline in volume from a single customer who lost a contract from one of its customers.

LLPS—Revenues decreased due to a decline in legal claims administration services of $2.9 million.

***Cost of Revenue***

The cost of revenue changes by operating segment was as follows:

ITPS—The increase corresponds with the related revenue increase related to 2018 acquisitions and the ramp up of new customers.

HS—The increase was primarily driven by an increase in health services corresponding with the related revenue increase.

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LLPS—The decrease was primarily attributable to a corresponding decrease in revenue in legal claims administration services.

***Selling, General and Administrative Expenses***

For the three months ended March 31, 2019 SG&A was higher mainly driven by higher stock compensation expense related to the equity awards granted to certain employees in the second half of 2018. The increase was also driven by higher investments in sales and strategy teams to drive the growth of the Company.

***Depreciation & Amortization***

Amortization expenses were lower for the three months ended March 31,2019 as compared to March 31, 2018 as a result of accelerated trade name write off during the financial year 2018. The accelerated trade name write off ended on December 31, 2018.

***Related Party Expenses***

Related party expenses remained materially consistent with the prior period.

***Interest Expense***

The Company pays interest on a semi-annual basis in the first and third quarters of each year as such, interest expense remained materially consistent with the prior period.

***Sundry Expense (Income)***

The increase was primarily attributable to foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

The decrease is primarily attributable to an interest rate swap entered into in 2017. The interest rate swap was not designated as a hedge. As such, changes in the fair value of this derivative instrument are recorded directly in earnings. For the three months ended March 31, 2019 the fair value of the interest swap decreased $1.7 million and for the three months ended March 31, 2018 the fair value increased $3.3 million.

***Income Tax (Expense) Benefit***

We had an income tax expense of $4.7 million for the three months ended March 31, 2019 compared to an income tax expense of $4.0 million for the three months ended March 31, 2018. The change in the income tax expense was primarily attributable to our change in judgment related to the realizability of certain deferred tax assets. The income tax benefit for the three months ended March 31, 2019 was primarily related to the decrease of valuation allowance on a portion of the Company's U.S. federal and state valuation allowance on deferred tax assets in connection with the acquisition of Novitex. The change in the effective tax rate for the three months ended March 31, 2019 resulted from permanent tax adjustments and valuation allowances, including valuation allowances against disallowed interest expense deferred tax assets that are not more-likely-than-not to be realized.

**Other Financial Information (Non-GAAP Financial Measures)**

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integrations costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses.

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We present EBITDA and Adjusted EBITDA because we believe they provide useful information regarding the factors and trends affecting its business in addition to measures calculated under GAAP. Additionally, our credit agreement requires us to comply with certain EBITDA related metrics. Refer to ''—Liquidity and Capital Resources—Credit Facility.''

***Note Regarding Non-GAAP Financial Measures***

EBITDA and Adjusted EBITDA are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial performance and results of operations as our board of directors and management use EBITDA and Adjusted EBITDA to assess our financial performance, because it allows them to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization) and items outside the control of our management team. Net loss is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some but not all items that affect the most directly comparable GAAP financial measures. You should not consider EBITDA and Adjusted EBITDA in isolation or as substitutes for an analysis of our results as reported under GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

**Three Months ended March 31, 2019 compared to the Three Months ended March 31, 2018**

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the three months ended March 31, 2019 and 2018:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Net Loss | $ (29,907) | $ (23,994) |
| Taxes | 4,720 | 4,025 |
| Interest expense | 38,899 | 38,017 |
| Depreciation and amortization | 28,020 | 38,019 |
| EBITDA | 41,732 | 56,067 |
| Optimization and restructuring expenses(1) | 25,789 | 14,513 |
| Transaction and integration costs(2) | 1,008 | 1,057 |
| Non-cash equity compensation(3) | 2,798 | 959 |
| Other charges including non-cash(4) | 839 | — |
| Loss on sale of assets | 219 | 299 |
| (Gain)/loss on derivative instruments(5) | 1,677 | (3,328) |
| Adjusted EBITDA | 74,062 | 69,567 |

(1) Adjustment represents net salary and benefits associated with positions that are part of the on-going savings initiatives including severance, retention bonuses, and related fees and expenses. Additionally, the adjustment includes charges incurred by us to terminate existing lease and vendor contracts as part of the on-going savings initiatives.
(2) Represents costs incurred related to transactions for completed or contemplated transactions during the period.
(3) Represents the non-cash charges related to restricted stock units and options granted by Ex-Sigma, LLC and Exela to our employees that vested during the year.
(4) Represents fair value adjustments to deferred revenue and deferred rent accounts established as part of purchase accounting and other non-cash charges. Other charges include a portion of the Company's transition expenses in 2019.
(5) Represents the impact of changes in the fair value of an interest rate swap entered into during the fourth quarter of 2017.

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***EBITDA and Adjusted EBITDA***

EBITDA was $41.7 million for the three months ended March 31, 2019 compared to $56.1 million for the three months ended March 31, 2018. Adjusted EBITDA was $74.1 million for the three months ended March 31, 2019 compared to $69.6 million for the three months ended March 31, 2018. The decrease in EBITDA for the three months ended March 31, 2019 was primarily due to a higher net loss as a result of changes to sundry expense and other income as compared to the three months ended March 31, 2018.

**Liquidity and Capital Resources**

**Overview**

Our primary source of liquidity is principally cash generated from operating activities supplemented as necessary on a short-term basis by borrowings against our senior secured revolving credit facility. We believe our current level of cash and short-term financing capabilities along with future cash flows from operations are sufficient to meet the needs of the business.

We currently expect to spend approximately $40 to $45 million on total capital expenditures over the next twelve months. We believe that our operating cash flow and available borrowings under our credit facility will be sufficient to fund our operations for at least the next twelve months.

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the “Repricing Term Loans”). The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement (the “Credit Agreement”). The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

On July 13, 2018, the Company borrowed an additional $30.0 million pursuant to incremental term loans under the Credit Agreement. On April 16, 2019, the Company borrowed an additional $30.0 million pursuant to incremental term loans under the Credit Agreement. The proceeds of these incremental term loans (collectively, the “Incremental Term Loans”) were used to replace the cash spent for acquisitions, pay related fees, expenses and related borrowings and may also be used for general corporate purposes.

The Repricing Term Loans and the Incremental Term Loans bear interest at a rate per annum consisting of, at the Company’s option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin of 6.50% for LIBOR loans and 5.50% for base rate loans. The Repricing Term Loans and the Incremental Term Loans will mature on July 12, 2023.

At March 31, 2019, cash and cash equivalents totaled $13.3 million and we had availability of $49.0 million under our senior secured revolving credit facility.

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**Cash Flows**

The following table summarizes our cash flows for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Cash flow from operating activities | $ (37,139) | $ (20,083) |
| Cash flow used in investing activities | (13,005) | (8,643) |
| Cash flows (used in) provided by financing activities | 19,582 | (13,387) |
| Subtotal | (30,562) | (42,113) |
| Effect of exchange rates on cash | (32) | 55 |
| Net increase/(decrease) in cash | (30,594) | (42,058) |

**Analysis of Cash Flow Changes between the Three Months Ended March 31, 2019 and March 31, 2018**

Operating Activities—The decrease of $17.1 million in cash flows from operating activities for the three months ended March 31, 2019 was primarily due to lower cash flows relating to the timing of payment of accounts payable and accrued liabilities, an increase in cost of revenues due to 2018 acquisition activity, and an increase in prepaid expenses and other assets. The decrease was offset by increased revenues due to 2018 acquisition activity.

Investing Activities—The decrease of $4.4 million in cash used in investing activities was primarily due to additional outsourcing contract costs for the three months ended March 31, 2019.

Financing Activities—The increase of $33.0 million in cash used in financing activities was primarily due to borrowings on the revolver and swing-line loan under the Credit Agreement and lower equity issuance costs offset by increases in principal payments on long-term obligations and a stock repurchase payment that was accrued for as of December 31, 2018 and paid in the first quarter of 2019.

**Indebtedness**

In connection with the Novitex Business Combination, we acquired debt facilities and issued notes totaling $1.4 billion. Proceeds from the indebtedness were used to pay off credit facilities existing immediately before the Novitex Business Combination.

*Senior Credit Facilities*

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the “Credit Agreement”) providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, (i) a $350.0 million senior secured term loan maturing July 12, 2023 with an original issue discount of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022, $30.0 million of which is currently drawn. The Credit Agreement provides for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company’s option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity. As of March 31, 2019 and 2018 the interest rate applicable for the first lien senior secured term loan was 9.29% and 10.0%.

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*Senior Secured Notes*

Senior secured notes of $1.0 billion due July 2023 were also issued as part of the Novitex Business Combination. The notes bear interest at a rate of 10.0% per year. We pay interest on the notes on January 15 and July 15 of each year, commencing on January 15, 2018. The notes are guaranteed by subsidiary guarantors pursuant to a supplemental indenture.

*Term Loan Repricing*

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the “Repricing”). The Repricing was accomplished pursuant to a First Amendment to First Lien Credit Agreement (the “First Amendment”), dated as of July 13, 2018, by and among Exela Intermediate Holdings LLC, the Company, each “Subsidiary Loan Party” listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto, whereby the Company borrowed $343.4 million of refinancing term loans (the “Repricing Term Loans”) to refinance the Company’s existing senior secured term loans.

The Repricing Term Loans will bear interest at a rate per annum of, at the Company’s option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin of 6.50% for LIBOR loans and 5.50% for base rate loans. The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement, by and among Exela Intermediate Holdings, LLC, the Company, Royal Bank of Canada, as administrative agent and collateral agent, and each of the lenders party thereto. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

*Incremental Term Loan*

On July 13, 2018, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the “2018 Incremental Term Loans”) under the First Amendment to the Credit Agreement. The proceeds of the 2018 Incremental Term Loans may be used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment. The interest rates applicable to the 2018 Incremental Term Loans are the same as those for the Repricing Term Loans.

On April 16, 2019, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the “2019 Incremental Term Loans”, and, together with the 2018 Incremental Terms Loans, the “Incremental Term Loans”) under the Second Amendment to the Credit Agreement. The proceeds of the Incremental Term Loans were used to replace the cash spent for acquisitions, pay related fees, expenses and related borrowings and may also be used for general corporate purposes.

The Incremental Term Loans bear interest at a rate per annum that is the same as the Repricing Term Loans. The Incremental Term Loans will mature on July 12, 2023, the same maturity date as the Repricing Term Loans.

The Company may voluntarily repay the Repricing Term Loans and the Incremental Term Loans (collectively, the “Term Loans”) at any time, without prepayment premium or penalty, except in connection with a repricing event as described in the following sentence, subject to customary “breakage” costs with respect to LIBOR rate loans. Any refinancing of the Term Loans through the issuance of certain debt or any repricing amendment, in either case, that constitutes a “repricing event” applicable to the Term Loans resulting in a lower yield occurring at any time during the first six months after July 13, 2018 will be accompanied by a 1.00% prepayment premium or fee, as applicable.

Other than as described above, the terms, conditions and covenants applicable to the Incremental Term Loans are consistent with the terms, conditions and covenants that were applicable to the Repricing Term Loans under the

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Credit Agreement and which are described in the registrant's Current Reports on Form 8-K filed with the Securities and Exchange Commission on July 18, 2017 and July 17, 2018.

*Letters of Credit*

As of March 31, 2019 and December 31, 2018, we had outstanding irrevocable letters of credit totaling approximately $21.0 million and $20.6 million, respectively, under the revolving credit facility.

**Potential Future Transactions**

We may, from time to time explore and evaluate possible strategic transactions, which may include joint ventures, as well as business acquisitions or the acquisition or disposition of assets. In order to pursue certain of these opportunities, additional funds will likely be required. There can be no assurance that we will enter into additional strategic transactions or alliances, nor do we know if we will be able to obtain the necessary financing for transactions that require additional funds on favorable terms, if at all.

**Off Balance Sheet Arrangements**

At March 31, 2019 we had no material off balance sheet arrangements, except letters of credit described above under Liquidity and Capital Resources. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements.

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

**Interest Rate Risk**

At March 31, 2019, we had $1,369.0 million of debt outstanding, with a weighted average interest rate of 9.59%. Interest is calculated under the terms of our credit agreement based on the greatest of certain specified base rates plus an applicable margin that varies based on certain factors. Assuming no change in the amount outstanding, the impact on interest expense of a 1% increase or decrease in the assumed weighted average interest rate would be approximately $13.7 million per year. In order to mitigate interest rate fluctuations with respect to term loan borrowings under the Credit Agreement, in November 2017, we entered into a three year one-month LIBOR interest rate swap contract with a notional amount of $347.8 million, which at the time was the remaining principal balance of the term loan. The swap contract swaps out the floating rate interest risk related to the LIBOR with a fixed interest rate of 1.9275% effective January 12, 2018.

The interest rate swap, which is used to manage our exposure to interest rate movements and other identified risks, was not designated as a hedge. As such, changes in the fair value of the derivative are recorded directly to other income as an expense of $1.7 million and income of $3.3 million for the three months ended March 31, 2019 and 2018.

**Foreign Currency Risk**

We are exposed to foreign currency risks that arise from normal business operations. These risks include transaction gains and losses associated with intercompany loans with foreign subsidiaries and transactions denominated in currencies other than a location's functional currency. Contracts are denominated in currencies of major industrial countries.

**Market Risk**

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. We do not use derivatives for trading purposes, to generate income or to engage in speculative activity.

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**Item 4. Internal Controls and Procedures**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that material information required to be disclosed in our reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been detected.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective due to material weaknesses in internal control over financial reporting described in our 10-K as of December 31, 2018.

Notwithstanding such material weaknesses in internal control over financial reporting, our management, including our CEO and CFO, has concluded that our consolidated financial statements present fairly, in all material respects, our financial position, results of our operations and our cash flows for the periods presented in this Annual Report, in conformity with U.S. generally accepted accounting principles.

**Remediation**

As previously described in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, we began implementing a remediation plan to address the material weaknesses mentioned above. The weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, these controls are operating effectively.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter-ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

**Item 1. Legal Proceedings**

*Appraisal Demand*

On September 21, 2017, former stockholders of SourceHOV Holdings, Inc. (“SourceHOV”), who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the acquisition of SourceHOV and Novitex Holdings, Inc, by Quinpario in July 2017 (“Novitex Business Combination”), which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their SourceHOV shares at the time of the Novitex Business Combination; an order that SourceHOV

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pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). Trial is currently scheduled for June 2019. The parties and their experts have offered competing valuations of the SourceHOV shares as of the date of the Novitex Business Combination. The Court may determine a fair value that is above or below the values indicated by the parties and their experts. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate what the Court will determine the fair value of SourceHOV common stock to be as of the date of the Novitex Business Combination. Pursuant to the terms of the Novitex Business Combination Agreement, if such appraisal rights are perfected, a corresponding portion of shares of our Common Stock issued to Ex-Sigma 2 LLC, our principal stockholder, will be forfeited at such time as the PIPE Financing (as defined in the Consent, Waiver and Amendment dated June 15, 2017) is repaid. The Company intends to vigorously defend against the Appraisal Action.

*Other*

We are, from time to time, involved in other legal proceedings, inquiries, claims and disputes, which arise in the ordinary course of business. Although our management cannot predict the outcomes of these matters, our management believes these actions will not have a material, adverse effect on our financial position, results of operations or cash flows.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the risk factors described in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 which could materially affect our business, financial condition and/or operating results. The risks described in these Risk Factors are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires 24 months after authorized. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. We purchased an additional 2,499,885 shares during 2018 at an average share price of $4.71. There were no share repurchases for the three months ended March 31, 2019 and 2018. As of March 31, 2019, 2,549,185 shares had been repurchased under the Share Buyback Program. The Company records treasury stock using the cost method.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

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**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

| Exhibit No. | Description |
|---|---|
| 2.1 | Business Combination Agreement, dated as of February 21, 2017, by and among Quinpario Acquisition Corp. 2, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., Novitex Holdings, Inc., SourceHOV Holdings, Inc., Novitex Parent, L.P, HOVS LLC and HandsOn Fund 4 I, LLC (3) |
| 3.1 | Restated Certificate of Incorporation, dated July 12, 2017 (4) |
| 3.2 | Amended and Restated Bylaws, dated July 12, 2017 (4) |
| 4.1 | Specimen common stock Certificate (1) |
| 4.2 | Specimen Warrant Certificate (1) |
| 4.3 | Form of Warrant Agreement between Continental Stock Transfer & Trust Company and the Registrant (1) |
| 4.4 | Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc. as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee (4) |
| 4.5 | First Supplemental Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc., as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee (4) |
| 10.1 | First Amendment to First Lien Credit Agreement, dated as of July 13, 2018, by and among Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each Subsidiary Loan Party listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto. (2) |
| 10.2 | Exela Technologies Inc. 2018 Stock Incentive Plan. |
| 10.3 | Form of Option Grant Notice and Agreement under the Exela Technologies Inc. 2018 Stock Incentive Plan. |
| 10.4 | Form of Restricted Stock Unit Grant and Agreement under the Exela Technologies Inc. 2018 Stock Incentive Plan. |
| 10.5 | Second Amendment to First Lien Credit Agreement, dated as of April, 17, 2019, by and among Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each Subsidiary Loan Party listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto. (5) |
| 31.1 | Certification of the Principal Executive Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 31.2 | Certification of the Principal Financial and Accounting Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 32.1 | Certification of the Principal Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 |
| 32.2 | Certification of the Principal Financial and Accounting Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

(1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-198988).
(2) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 13, 2018.
(3) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed on February 22, 2017.
(4) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 18, 2017.
(5) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on April 17, 2019.

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**SIGNATURES**

Pursuant to the requirements of the Section 13 or 15 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 9th day of May, 2019.

EXELA TECHNOLOGIES, INC.
By:/s/ Ronald Cogburn
Ronald Cogburn
Chief Executive Officer (Principal Executive Officer)
By:/s/ James G. Reynolds
James G. Reynolds
Chief Financial Officer (Principal Financial and Accounting Officer)

# Exhibit 12

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

## FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2019**

**Or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission file number: 001-36788**

# EXELA TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Delaware**<br>(State of or other Jurisdiction Incorporation or Organization) | **47-1347291**<br>(I.R.S. Employer Identification No.) |
| **2701 E. Grauwyler Rd.**<br>**Irving, TX**<br>(Address of Principal Executive Offices) | **75061**<br>(Zip Code) |

Registrant's Telephone Number, Including Area Code: **(844) 935-2832**

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class | Trading Symbol | Name of Each Exchange on Which Registered |
|---|---|---|
| Common Stock, Par Value $0.0001 per share | XELA | The Nasdaq Stock Market LLC |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large Accelerated Filer ☐ | Accelerated Filer ☒ |
| Non-Accelerated Filer ☐ | Smaller Reporting Company ☒ |
| | Emerging Growth Company ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of August 5, 2019 the registrant had 150,007,085 shares of Common Stock outstanding.

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**Exela Technologies, Inc.**

**Form 10-Q**

**For the quarterly period ended June 30, 2019**

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Balance Sheets**
**As of June 30, 2019 and December 31, 2018**
*(in thousands of United States dollars except share and per share amounts)*

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 18,449 | $ 25,615 |
| Restricted cash | 4,977 | 18,239 |
| Accounts receivable, net of allowance for doubtful accounts of $8,348 and $4,359, respectively | 266,660 | 270,812 |
| Related party receivables | 206 | — |
| Inventories, net | 16,735 | 16,220 |
| Prepaid expenses and other current assets | 23,791 | 25,015 |
| **Total current assets** | **330,818** | **355,901** |
| Property, plant and equipment, net of accumulated depreciation of $167,376 and $154,060 respectively | 125,018 | 132,986 |
| Operating lease right-of-use asset, net | 96,498 | — |
| Goodwill | 708,246 | 708,258 |
| Intangible assets, net | 387,775 | 407,021 |
| Deferred income tax assets | 16,181 | 16,225 |
| Other noncurrent assets | 14,714 | 19,391 |
| **Total assets** | **$ 1,679,250** | **$ 1,639,782** |
| **Liabilities and Stockholders' Equity (Deficit)** | | |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable | $ 99,089 | $ 99,853 |
| Related party payables | 238 | 7,735 |
| Income tax payable | 2,525 | 1,996 |
| Accrued liabilities | 59,487 | 66,008 |
| Accrued compensation and benefits | 52,493 | 54,583 |
| Accrued interest | 48,935 | 49,071 |
| Customer deposits | 28,914 | 34,235 |
| Deferred revenue | 19,428 | 16,504 |
| Obligation for claim payment | 41,496 | 56,002 |
| Current portion of finance lease liability | 15,897 | 17,498 |
| Current portion of operating lease liability | 27,444 | — |
| Current portion of long-term debt | 38,929 | 29,237 |
| **Total current liabilities** | **434,875** | **432,722** |
| Long-term debt, net of current maturities | 1,331,898 | 1,306,423 |
| Finance lease obligations, net of current portion | 25,772 | 26,738 |
| Pension liability | 24,866 | 25,269 |
| Deferred income tax liabilities | 15,896 | 11,212 |
| Long-term income tax liability | 2,842 | 3,024 |
| Operating lease liability, net of current portion | 74,290 | — |
| Other long-term liabilities | 7,882 | 15,400 |
| **Total liabilities** | **1,918,321** | **1,820,788** |
| Commitment and Contingencies (Note 10) | | |
| **Stockholders' equity (deficit)** | | |
| Common stock, par value of $0.0001 per share; 1,600,000,000 shares authorized; 152,782,534 shares issued and 150,007,085 shares outstanding at June 30, 2019 and 152,692,140 shares issued and 150,142,955 shares outstanding at December 31, 2018 | 15 | 15 |
| Preferred stock, par value of $0.0001 per share; 20,000,000 shares authorized; 4,569,233 shares issued and outstanding at June 30, 2019 and December 31, 2018 | 1 | 1 |
| Additional paid in capital | 482,018 | 482,018 |
| Less: common stock held in treasury, at cost; 2,787,147 shares at June 30, 2019 and 2,549,185 shares December 31, 2018 | (10,949) | (10,342) |
| Equity-based compensation | 47,190 | 41,731 |
| Accumulated deficit | (742,616) | (678,563) |
| Accumulated other comprehensive loss: | | |
| Foreign currency translation adjustment | (5,461) | (6,565) |
| Unrealized pension actuarial losses, net of tax | (9,269) | (9,301) |
| Total accumulated other comprehensive loss | (14,730) | (15,866) |
| **Total stockholders' deficit** | **(239,071)** | **(181,006)** |
| **Total liabilities and stockholders' deficit** | **$ 1,679,250** | **$ 1,639,782** |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Operations**
**For the Three and Six Months Ended June 30, 2019 and 2018**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Revenue | $ 390,160 | $ 410,382 | $ 793,924 | $ 803,549 |
| Cost of revenue (exclusive of depreciation and amortization) | 298,006 | 313,954 | 604,888 | 607,746 |
| Selling, general and administrative expenses | 51,564 | 46,723 | 101,512 | 92,318 |
| Depreciation and amortization | 27,191 | 36,368 | 55,211 | 74,386 |
| Related party expense | 1,055 | 1,402 | 2,050 | 2,508 |
| **Operating income** | 12,344 | 11,935 | 30,263 | 26,591 |
| **Other expense (income), net:** | | | | |
| Interest expense, net | 39,132 | 38,527 | 78,031 | 76,544 |
| Debt modification and extinguishment costs | 1,404 | — | 1,404 | — |
| Sundry expense (income), net | (1,493) | (2,325) | 1,038 | (2,389) |
| Other expense (income), net | 2,709 | (704) | 4,385 | (4,032) |
| **Net loss before income taxes** | (29,408) | (23,563) | (54,595) | (43,532) |
| Income tax (expense) benefit | (4,738) | (1,619) | (9,459) | (5,644) |
| **Net loss** | **$** (34,146) | $ (25,182) | **$** (64,054) | $ (49,176) |
| Cumulative dividends for Series A Preferred Stock | (914) | (914) | (1,828) | (1,828) |
| **Net loss attributable to common stockholders** | **$** (35,060) | $ (26,096) | **$** (65,882) | $ (51,004) |
| **Loss per share:** | | | | |
| Basic and diluted | $ (0.23) | $ (0.17) | $ (0.44) | $ (0.34) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Comprehensive Loss**
**For the Three and Six Months Ended June 30, 2019 and 2018**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Net Loss** | $ (34,146) | $ (25,182) | $ (64,054) | $ (49,176) |
| **Other comprehensive income (loss), net of tax** | | | | |
| Foreign currency translation adjustments | (2,288) | (879) | 1,104 | (1,147) |
| Unrealized pension actuarial gains (losses), net of tax | 256 | 626 | 32 | 223 |
| **Total other comprehensive loss, net of tax** | $ (36,178) | $ (25,435) | $ (62,918) | $ (50,100) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Stockholders' Deficit**
**For the Six Months Ended June 30, 2019 and 2018**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Common Stock | | Preferred Stock | | Treasury Stock | | Additional Paid in Capital | Equity-Based Compensation | Accumulated Other Comprehensive Loss | | Accumulated Deficit | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | | |
| **Balances at January 1, 2018** | **150,529,151** | **$ 15** | **6,194,233** | **$ 1** | **49,300** | **$ (249)** | **$ 482,018** | **$ 34,085** | **$ (194)** | **$ (11,054)** | **$ (514,628)** | **$ (10,006)** |
| Implementation of ASU 2014-09 (Note 4) | — | — | — | — | — | — | — | — | — | — | (1,419) | (1,419) |
| Net loss January 1, 2018 to March 31, 2018 | — | — | — | — | — | — | — | — | — | — | (23,994) | (23,994) |
| Equity-based compensation | — | — | — | — | — | — | — | 959 | — | — | — | 959 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (268) | — | — | (268) |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | (403) | — | (403) |
| Preferred shares converted to common | 1,986,767 | — | (1,625,000) | — | — | — | — | — | — | — | — | — |
| **Balances at March 31, 2018** | **152,515,918** | **$ 15** | **4,569,233** | **1** | **49,300** | **$ (249)** | **$ 482,018** | **$ 35,044** | **$ (462)** | **$ (11,457)** | **$ (540,041)** | **$ (35,131)** |
| Net loss April 1, 2018 to June 30, 2018 | — | — | — | — | — | — | — | — | — | — | (25,182) | (25,182) |
| Equity-based compensation | — | — | — | — | — | — | — | 1,936 | — | — | — | 1,936 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (879) | — | — | (879) |
| Shares repurchased | (768,693) | — | — | — | 768,693 | (3,479) | — | — | — | 626 | — | (2,853) |
| **Balances at June 30, 2018** | **151,747,225** | **$ 15** | **4,569,233** | **1** | **817,993** | **$(3,728)** | **$ 482,018** | **$ 36,980** | **$ (1,341)** | **$ (10,831)** | **$ (565,222)** | **$ (62,108)** |

| | Common Stock | | Preferred Stock | | Treasury Stock | | Additional Paid in Capital | Equity-Based Compensation | Accumulated Other Comprehensive Loss | | Accumulated Deficit | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | | |
| **Balances at January 1, 2019** | **150,142,955** | **$ 15** | **4,569,233** | **$ 1** | **2,549,185** | **$(10,342)** | **$ 482,018** | **$ 41,731** | **$ (6,565)** | **$ (9,301)** | **$ (678,563)** | **$ (181,006)** |
| Net loss January 1, 2019 to March 31, 2019 | — | — | — | — | — | — | — | — | — | — | (29,907) | (29,907) |
| Equity-based compensation | — | — | — | — | — | — | — | 2,798 | — | — | — | 2,798 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | 3,392 | — | — | 3,392 |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | (224) | — | (224) |
| **Balances at March 31, 2019** | **150,142,955** | **15** | **4,569,233** | **1** | **2,549,185** | **(10,342)** | **482,018** | **44,529** | **(3,173)** | **(9,525)** | **(708,470)** | **(204,947)** |
| Net loss April 1, 2019 to June 30, 2019 | — | — | — | — | — | — | — | — | — | — | (34,146) | (34,146) |
| Equity-based compensation | — | — | — | — | — | — | — | 2,661 | — | — | — | 2,661 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (2,288) | — | — | (2,288) |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | 256 | — | 256 |
| RSU's vested | 102,092 | — | — | — | — | — | — | — | — | — | — | — |
| Shares repurchased | (237,962) | — | — | — | 237,962 | (607) | — | — | — | — | — | (607) |
| **Balances at June 30, 2019** | **150,007,085** | **$ 15** | **4,569,233** | **$ 1** | **2,787,147** | **$(10,949)** | **$ 482,018** | **$ 47,190** | **$ (5,461)** | **$ (9,269)** | **$ (742,616)** | **$ (239,071)** |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statement of Cash Flows**
**For the Six Months Ended June 30, 2019 and 2018**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss | $ (64,054) | $ (49,176) |
| Adjustments to reconcile net loss | | |
| Depreciation and amortization | 55,211 | 74,386 |
| Original issue discount and debt issuance cost amortization | 5,749 | 5,272 |
| Debt modification and extinguishment costs | 1,049 | — |
| Provision for doubtful accounts | 3,334 | 1,857 |
| Deferred income tax provision | 4,623 | 705 |
| Share-based compensation expense | 5,459 | 2,895 |
| Foreign currency remeasurement | 288 | (1,156) |
| Loss (gain) on sale of assets | (10) | 1,340 |
| Fair value adjustment for interest rate swap | 4,385 | (4,675) |
| Change in operating assets and liabilities, net of effect from acquisitions | | |
| Accounts receivable | 624 | (19,813) |
| Prepaid expenses and other assets | 1,260 | (1,603) |
| Accounts payable and accrued liabilities | (14,991) | 40,677 |
| Related party payables | (7,703) | (2,458) |
| **Net cash provided by (used) in operating activities** | **(4,776)** | **48,251** |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | (9,072) | (10,244) |
| Additions to internally developed software | (4,007) | (2,115) |
| Additions to outsourcing contract costs | (10,440) | (3,695) |
| Cash paid in acquisition, net of cash received | (5,000) | (4,145) |
| Proceeds from sale of assets | 20 | 1,014 |
| **Net cash used in investing activities** | **(28,499)** | **(19,185)** |
| **Cash flows from financing activities** | | |
| Third party debt modification and extinguishment costs | 355 | — |
| Repurchases of common stock | (3,480) | (3,479) |
| Borrowings from other loans | 1,544 | 2,152 |
| Cash paid for equity issue costs | — | (7,500) |
| Net borrowings under factoring agreement | 2,426 | — |
| Proceeds from credit facility | 29,850 | — |
| Net cash for debt issuance costs and debt discounts | (362) | — |
| Borrowings from revolver and swing-line loan | 68,000 | 30,000 |
| Repayments from revolver and swing-line loan | (68,000) | (30,000) |
| Principal payments on finance lease obligations | (9,180) | (8,404) |
| Principal payments on long-term obligations | (8,417) | (6,043) |
| **Net cash provided by (used in) financing activities** | **12,736** | **(23,274)** |
| Effect of exchange rates on cash | 111 | (410) |
| **Net decrease in cash and cash equivalents** | **(20,428)** | **5,382** |
| Cash, restricted cash, and cash equivalents | | |
| Beginning of period | 43,854 | 81,489 |
| End of period | $ 23,426 | $ 86,871 |
| **Supplemental cash flow data:** | | |
| Income tax payments, net of refunds received | $ 5,181 | $ 3,864 |
| Interest paid | 71,240 | 76,353 |
| **Noncash investing and financing activities:** | | |
| Assets acquired through right-of-use arrangements | 6,778 | 7,787 |
| Leasehold improvements funded by lessor | — | 1,540 |
| Accrued capital expenditures | 1,083 | 1,144 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Notes to the Condensed Consolidated Financial Statements**
*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*
(Unaudited)

1. General

These condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements as of and for the year ended December 31, 2018 included in the Exela Technologies, Inc. (the "Company," "Exela," "we," "our" or "us") annual report on Form 10-K for such period (the “2018 Form 10-K”).

The accompanying condensed consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America ("GAAP") and with the instructions to Form 10-Q and Rule 10-01 of Securities and Exchange Commission ("SEC") Regulation S-X as they apply to interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. These accounting principles require us to use estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from our estimates.

The condensed consolidated financial statements are unaudited, but in our opinion include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim period. The interim financial results are not necessarily indicative of results that may be expected for any other interim period or the fiscal year.

**Net Loss per Share**

Earnings per share ("EPS") is computed by dividing net loss available to holders of the Company's common stock, par value $0.0001 per share (“Common Stock”) by the weighted average number of shares of Common Stock outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock, using the more dilutive of the two-class method or if-converted method in periods of earnings. The two-class method is an earnings allocation method that determines earnings per share for Common Stock and participating securities. As the Company experienced net losses for the periods presented, the impact of the Company’s Series A Convertible Preferred Stock (“Series A Preferred Stock”) was calculated based on the if-converted method. Diluted EPS excludes all dilutive potential of shares of Common Stock if their effect is anti-dilutive.

For the six months ended June 30, 2019 outstanding shares of the Series A Preferred Stock, if converted would have resulted in an additional 5,586,344 shares of Common Stock outstanding, but were not included in the computation of diluted loss per share as their effects were anti-dilutive.

The Company was originally incorporated July 12, 2017 as a special purpose acquisition company under the name Quinpario Acquisition Corp 2 (“Quinpario”). The Company has not included the effect of 35,000,000 warrants sold in the Quinpario Initial Public Offering (“IPO”) in the calculation of net income (loss) per share. Warrants are considered anti-dilutive and excluded when the exercise price exceeds the average market value of the Company’s Common Stock price during the applicable period.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net loss attributable to common stockholders (A) | $ (35,060) | $ (26,096) | $ (65,882) | $ (51,004) |
| Weighted average common shares outstanding - basic and diluted (B) | 150,036,927 | 152,259,589 | 150,089,648 | 152,186,473 |
| **Loss Per Share:** | | | | |
| Basic and diluted (A/B) | $ (0.23) | $ (0.17) | $ (0.44) | $ (0.34) |

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**2. New Accounting Pronouncements**

**Recently Adopted Accounting Pronouncements**

Effective January 1, 2019, the Company adopted Accounting Standards Update ("ASU") no. 2016-02, *Leases (ASC 842)*. This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The Company adopted this guidance effective January 1, 2019, under the modified retrospective transition method provided by ASU 2018-11 with the following practical expedients below:

- Not to record the leases with an initial term of 12 months on the balance sheet; and
- Not to reassess the (1) definition of a lease, (2) lease classification, and (3) initial direct costs for existing leases during transition.

The adoption had a material impact on the Company's unaudited consolidated balance sheets, but did not have a material impact on the Company's unaudited consolidated income statements and unaudited consolidated statements of cash flows. The most significant impact was the recognition of right-of-use assets and lease liabilities for operating leases, while the Company's accounting for finance leases remained substantially unchanged. See Note 5 for relevant disclosures.

Effective January 1, 2019, the Company adopted ASU no. 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception.* Part I of this ASU addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this ASU addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the three and six months ended June 30, 2019.

Effective January 1, 2019, the Company adopted ASU no. 2017-12, *Derivatives and Hedging (Topic 815); Targeted Improvements to Accounting for Hedging Activities.* The amendments in this ASU better align the risk management activities and financial reporting for these hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the three and six months ended June 30, 2019.

Effective January 1, 2019, the Company adopted ASU no. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendments in this ASU address a narrow-scope financial reporting issue related to the tax effects that may become "stranded" in accumulated other comprehensive income ("AOCI") as a result of the Tax Cuts and Jobs Act ("TCJA"). An entity may elect to reclassify the income tax effects of the TCJA on items within AOCI to retained earnings. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the three and six months ended June 30, 2019.

Effective January 1, 2019, the Company adopted ASU no. 2018-07, *Compensation—Stock Compensation (Topic 718):* Improvements to Nonemployee Share-Based Payment Accounting to amend the accounting for share-based payment awards issued to nonemployees. Under the revised guidance, the accounting for awards issued to nonemployees will be

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similar to the model for employee awards, except the ASU allows an entity to elect on an award-by-award basis to use the contractual term as the expected term assumption in the option pricing model, and the cost of the grant is recognized in the same period(s) and in the same manner as if the grantor had paid cash. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the three and six months ended June 30, 2019.

**Recently Issued Accounting Pronouncements**

In June 2016, the FASB issued ASU no. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* to replace the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The standard will be effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2018, the FASB issued ASU no. 2018-13, *Fair Value Measurement (Topic 82*0); which changes the fair value measurement disclosure requirements of ASC 820. The amendments in this ASU are the result of a broader disclosure project called FASB Concepts Statement, Conceptual Framework for Financial Reporting. The FASB used the guidance in the Concepts Statement to improve the effectiveness of ASC 820's disclosure requirements. The objective of the disclosure requirements in this subtopic is to provide users of financial statements with information about assets and liabilities measured at fair value in the statement of financial position or disclosed in the notes to financial statements. The ASU includes but is not limited to the valuation techniques and inputs that a reporting entity uses to arrive at its measures of fair value, including judgments and assumptions that the entity makes, the uncertainty in the fair value measurements as of the reporting date, and how changes in fair value measurements affect an entity's performance and cash flows. The ASU is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted for any eliminated or modified disclosures upon issuance of this ASU. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2018, the FASB issued ASU no. 2018-15, *Intangibles, Goodwill, and Other - Internal Use Software (Subtopic 350-40): Customer's accounting for implementation costs incurred in a Cloud Computing Arrangement that is a service contract.* The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments also require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, which includes reasonably certain renewals. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

**3. Business Combinations**

**Asterion**

On April 10, 2018, Exela completed the acquisition of Asterion International Group ("Asterion," the "Asterion Business Combination"), a well-established provider of technology driven business process outsourcing, document management

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and business process automation across Europe. The purchase price was approximately $19.5 million. The acquisition comes with minimal customer overlap and is strategic to expanding Exela's European business.
The acquired assets and assumed liabilities of Asterion were recorded at their estimated fair values. The following table summarizes the consideration paid for Asterion and the fair value of the assets acquired and liabilities assumed at the acquisition date on April 10, 2018:

| | |
|---|---|
| **Assets Acquired:** | |
| Cash and cash equivalents | $ 5,595 |
| Accounts receivable | 25,740 |
| Other current assets | 2,282 |
| Inventories, net | 1,137 |
| Property, plant, and equipment, net | 4,747 |
| Deferred income tax assets | 6,316 |
| Other noncurrent assets | 522 |
| Intangible assets, net | 3,525 |
| Goodwill | 1,493 |
| Total identifiable assets acquired | $ 51,357 |
| **Liabilities Assumed:** | |
| Accounts payable | $ (5,596) |
| Income tax payable | (5) |
| Accrued liabilities | (6,593) |
| Accrued compensation and benefits | (7,079) |
| Deferred revenue | (880) |
| Current portion of long term debt | (994) |
| Customer deposits | (462) |
| Pension liability | (7,135) |
| Other long-term liabilities | (1,324) |
| Deferred income tax liabilities | (1,171) |
| Capital lease obligations, net of current maturities | (650) |
| Total liabilities assumed | $ (31,889) |
| Total Consideration | $ 19,468 |

The majority of identifiable intangible assets consisted of customer relationships. Customer relationships were valued using the Income Approach, specifically the Multi-Period Excess Earnings method. This intangible acquired represents a Level 3 measurement as it is based on unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset at fair value.

| | Weighted Average Useful Life (in years) | Fair Value |
|---|---|---|
| Customer Relationships | 9.5 | $ 3,516 |

Through the acquisition of Asterion, the Company expects to leverage brand awareness, strengthen margins, and expand the existing Asterion sales channels. These factors, among others, contributed to a purchase price in excess of the estimated fair value of Asterion's identifiable net assets assumed, and as a result, the Company has recorded goodwill in connection with this acquisition. For the three and six months ended June 30, 2019 the Company recognized $17.7 million and $39.8 million in revenue related to Asterion in the Consolidated Statement of Operations.

**4. Significant Accounting Policies**

The information presented below supplements the Significant Accounting Policies information presented in our 2018 Form 10-K, including Revenue Recognition for the adoption of ASC 606 (ASU 2014-09: Revenue from Contracts with

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Customers), which became effective January 1, 2018. See our 2018 Form 10-K for a description of our significant accounting policies in effect prior to the adoption of the new accounting standard.

**Revenue Recognition**

We account for revenue in accordance with ASC 606. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. All of our material sources of revenue are derived from contracts with customers, primarily related to the provision of business and transaction processing services within each of our segments. We do not have any significant extended payment terms, as payment is received shortly after goods are delivered or services are provided.

***Nature of Services***

Our primary performance obligations are to stand ready to provide various forms of business processing services, consisting of a series of distinct services that are substantially the same and have the same pattern of transfer over time, and accordingly are combined into a single performance obligation. Our promise to our customers is typically to perform an unknown or unspecified quantity of tasks and the consideration received is contingent upon the customers' use (i.e., number of transactions processed, requests fulfilled, etc.); as such, the total transaction price is variable. We allocate the variable fees to the single performance obligation charged to the distinct service period in which we have the contractual right to bill under the contract.

***Disaggregation of Revenues***

The following tables disaggregate revenue from contracts by geographic region and by segment for the three and six months ended June 30, 2019 and 2018:

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | ITPS | HS | LLPS | ITPS | HS | LLPS |
| United States | $ 238,538 | $ 63,440 | $ 17,568 | $ 264,864 | $ 56,314 | $ 23,936 |
| Europe | 63,823 | — | — | 58,357 | — | — |
| Other | 6,791 | — | — | 6,911 | — | — |
| Total | $ 309,152 | $ 63,440 | $ 17,568 | $ 330,132 | $ 56,314 | $ 23,936 |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | ITPS | HS | LLPS | ITPS | HS | LLPS |
| United States | $ 489,445 | $ 124,783 | $ 35,410 | $ 534,815 | $ 114,946 | $ 46,535 |
| Europe | 130,501 | — | — | 93,640 | — | — |
| Other | 13,785 | — | — | 13,613 | — | — |
| Total | $ 633,731 | $ 124,783 | $ 35,410 | $ 642,068 | $ 114,946 | $ 46,535 |

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***Contract Balances***

The following table presents contract assets and contract liabilities recognized at June 30, 2019 and December 31, 2018:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Accounts receivable, net | $ 266,660 | $ 270,812 |
| Deferred revenues | 19,810 | 16,940 |
| Costs to obtain and fulfill a contract | 24,005 | 18,624 |
| Customer deposits | 28,914 | 34,235 |

Accounts receivable, net includes $38.8 million and $39.5 million as of June 30, 2019 and December 31, 2018, respectively, representing amounts not billed to customers. We have accrued the unbilled receivables for work performed in accordance with the terms of contracts with customers.

Deferred revenues relate to payments received in advance of performance under a contract. A significant portion of this balance relates to maintenance contracts or other service contracts where we received payments for upfront conversions or implementation activities which do not transfer a service to the customer but rather are used in fulfilling the related performance obligations that transfer over time. The advance consideration received from customers is deferred over the contract term. We recognized revenue of $10.6 million during the six months ended June 30, 2019 that had been deferred as of December 31, 2018.

Costs incurred to obtain and fulfill contracts are deferred and expensed on a straight-line basis over the estimated benefit period. We recognized $4.8 million of amortization for these costs in the first six months of 2019 within depreciation and amortization expense. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or transition activities and can be separated into two principal categories: contract commissions and transition/set-up costs. Examples of such capitalized costs include hourly labor and related fringe benefits and travel costs. Applying the practical expedient in ASC 340-40-25-4, we recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period would have been one year or less. These costs are included in Selling, general and administrative expenses. The effect of applying this practical expedient was not material.

Customer deposits consist primarily of amounts received from customers in advance for postage. The majority of the amounts recorded as of December 31, 2018 were used to pay for postage with the corresponding postage revenue being recognized during the six months ended June 30, 2019.

***Performance Obligations***

At the inception of each contract, we assess the goods and services promised in our contracts and identify each distinct performance obligation. The majority of our contracts have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts. For the majority of our business and transaction processing service contracts, revenues are recognized as services are provided based on an appropriate input or output method, typically based on the related labor or transactional volumes.

Certain of our contracts have multiple performance obligations, including contracts that combine software implementation services with post-implementation customer support. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we estimate our expected costs of satisfying a performance obligation and add an appropriate margin for that distinct good or service. We also use the adjusted market approach whereby we estimate the price that customers in the market would be willing to pay. In assessing whether to allocate variable consideration to a specific part of the contract, we consider the nature of the variable payment and

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whether it relates specifically to its efforts to satisfy a specific part of the contract. Certain of our software implementation performance obligations are satisfied at a point in time, typically when customer acceptance is obtained.

When evaluating the transaction price, we analyze, on a contract-by-contract basis, all applicable variable consideration. The nature of our contracts give rise to variable consideration, including volume discounts, contract penalties, and other similar items that generally decrease the transaction price. We estimate these amounts based on the expected amount to be provided to customers and reduce revenues recognized. We do not anticipate significant changes to our estimates of variable consideration.

We include reimbursements from customers, such as postage costs, in revenue, while the related costs are included in cost of revenue.

***Transaction Price Allocated to the Remaining Performance Obligations***

In accordance with optional exemptions available under ASC 606, we did not disclose the value of unsatisfied performance obligations for (1) contracts with an original expected length of one year or less, and (2) contracts for which variable consideration relates entirely to an unsatisfied performance obligation, which comprise the majority of our contracts. We have certain non-cancellable contracts where we receive a fixed monthly fee in exchange for a series of distinct services that are substantially the same and have the same pattern of transfer over time, with the corresponding remaining performance obligations as of June 30, 2019 in each of the future periods below:

| Estimated Remaining Fixed Consideration for Unsatisfied Performance Obligations | |
|---|---|
| Remainder of 2019 | $ 21,296 |
| 2020 | 26,593 |
| 2021 | 17,008 |
| 2022 | 7,518 |
| 2023 | 2,651 |
| 2024 and thereafter | 877 |
| Total | $ 75,943 |

**5. Leases**

The following table summarizes the impact of the changes made to the January 1, 2019 consolidated balance sheet for the adoption of the new accounting standard pertaining to leases. The prior periods have not been restated and have been reported under the accounting standard in effect for those periods.

| | Balance at December 31, 2018 | Impact of Lease Standard | Balance at January 1, 2019 |
|---|---|---|---|
| Total assets | $ 1,639,782 | $ 102,651 | $ 1,742,433 |
| Total current liabilities | 432,722 | 25,304 | 458,026 |
| Total long-term liabilities | 1,820,788 | 79,703 | 1,900,491 |

The increase in total assets and total liabilities at June 30, 2019 from December 31, 2018 was primarily due to the impact from the adoption of the new accounting standard pertaining to lease arrangements. See Note 2 for additional information on the impact of the adoption of this standard.

The Company determines if a contract is, or contains, a lease at contract inception. Operating leases are included in operating lease right-of-use ("ROU") assets, current portion of operating lease liabilities and operating lease liabilities, net of current portion in the Company's unaudited consolidated balance sheets. Finance leases are included in property and

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equipment, current portion of finance lease obligations and finance lease obligations, net of current portion in the Company's unaudited consolidated balance sheets.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. In addition, ROU assets include initial direct costs incurred by the lessee as well as any lease payments made at or before the commencement date, and exclude lease incentives. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Leases with a term of one year or less are generally not included in ROU assets and liabilities.

Operating lease ROU assets and operating lease liabilities are recorded on the consolidated balance sheet as follows:

| | June 30, 2019 |
|---|---|
| *Balance sheet location:* | |
| **Operating Lease** | |
| Operating lease right-of-use asset, net | $ 96,498 |
| Current portion of operating lease liability | 27,444 |
| Operating lease liability, net of current portion | 74,290 |
| **Finance Lease** | |
| Finance lease right-of-use asset, net (included in property, plant and equipment, net) | 28,750 |
| Current portion of finance lease liability | 15,897 |
| Finance lease obligations, net of current portion | 25,772 |

As of June 30, 2019, weighted-average remaining lease term of operating leases and finance leases was 4.84 years and 3.13 years, respectively. The weighted-average discount rate for operating leases and finance leases was 10.19% and 8.43%, respectively.

The interest on financing lease liabilities for the three and six months ended June 30, 2019 was $0.8 million and $1.6 million, respectively. The amortization expense on finance lease right-of-use assets for the three and six months ended June 30, 2019 was $3.7 and $7.1 million, respectively.

The following table summarizes maturities of finance and operating lease liabilities based on lease term as of June 30, 2019:

| | Finance Leases | Operating Leases |
|---|---|---|
| Remainder of 2019 | $ 14,306 | $ 13,862 |
| 2020 | 11,203 | 25,181 |
| 2021 | 9,043 | 19,459 |
| 2022 | 3,986 | 15,188 |
| 2023 | 2,240 | 11,069 |
| 2024 and thereafter | 3,557 | 19,878 |
| Total lease payments | 44,335 | 104,637 |
| Less: Imputed interest | 2,666 | 2,903 |
| Present value of lease liabilities | $ 41,669 | $ 101,734 |

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At December 31, 2018, the Company had the following future minimum payments due under non-cancelable leases:

| | Finance Leases | Operating Leases |
|---|---|---|
| 2019 | $ 20,080 | $ 38,057 |
| 2020 | 11,851 | 29,346 |
| 2021 | 9,018 | 22,239 |
| 2022 | 4,169 | 16,782 |
| 2023 | 2,244 | 12,302 |
| 2024 and thereafter | 3,617 | 18,874 |
| Total minimum lease payments | $ 50,979 | $ 137,600 |
| Less: imputed interest | 6,743 | |
| Total net minimum lease payments | 44,236 | |
| Less: Current portion of obligations under finance leases | 17,498 | |
| Long-term portion of obligations under finance leases | $ 26,738 | |

Consolidated rental expense for all operating leases was $83.8 million for the year ended December 31, 2018. Consolidated rental expense for all operating leases was $18.5 million and $37.4 million for the three and six months ended June 30, 2019, respectively.

The following table summarizes the cash paid and related right-of-use operating finance or operating lease recognized for the six months ended June 30, 2019.

| | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2019 |
|---|---|---|
| **Cash paid for amounts included in the measurement of lease liabilities:** | | |
| Operating cash flows from finance leases | - | - |
| Operating cash flows from operating leases | $ 9,873 | $ 19,247 |
| Financing cash flows from finance leases | 4,103 | 9,180 |
| **Right-of-use lease assets obtained in the exchange for lease liabilities:** | | |
| Operating leases | 211 | 3,115 |
| Finance leases | 2,682 | 6,778 |

**6. Intangibles Assets and Goodwill**

**Intangible Assets**

Intangible assets are stated at cost or acquisition-date fair value less accumulated amortization and consists of the following:

| | June 30, 2019 | | |
|---|---|---|---|
| | Gross Carrying Amount (a) | Amortization | Intangible Asset, net |
| Customer relationships | $ 508,086 | $ (214,999) | $ 293,087 |
| Developed technology | 89,053 | (86,809) | 2,244 |
| Trade names (b) | 9,400 | (3,100) | 6,300 |
| Outsource contract costs | 57,098 | (32,970) | 24,128 |
| Internally developed software | 40,984 | (8,748) | 32,236 |
| Trademarks | 23,379 | (23,370) | 9 |
| Non compete agreements | 1,350 | (1,350) | — |
| Assembled workforce | 4,473 | (559) | 3,914 |
| Purchased software | 26,749 | (892) | 25,857 |
| Intangibles, net | $ 760,572 | $ (372,797) | $ 387,775 |

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| | December 31, 2018 | | |
|---|---|---|---|
| | Gross Carrying Amount (a) | Amortization | Intangible Asset, net |
| Customer relationships | $ 507,905 | $ (190,666) | $ 317,239 |
| Developed technology | 89,053 | (85,967) | 3,086 |
| Trade names (b) | 9,400 | (3,100) | 6,300 |
| Outsource contract costs | 46,342 | (27,719) | 18,623 |
| Internally developed software | 36,820 | (6,278) | 30,542 |
| Trademarks | 23,379 | (23,370) | 9 |
| Non compete agreements | 1,350 | (1,350) | — |
| Assembled workforce | 4,473 | — | 4,473 |
| Purchased software | 26,749 | — | 26,749 |
| Intangibles, net | $ 745,471 | $ (338,450) | $ 407,021 |

(a) Amounts include intangible assets acquired in business combinations.
(b) The carrying amount of trade names for 2019 and 2018 is net of accumulated impairment losses of $43.1 million, of which $3.7 million was recognized in 2018.

**Goodwill**

The Company's operating segments are significant strategic business units that align its products and services with how it manages its business, approach the markets and interacts with its clients. The Company is organized into three segments: ITPS, HS, and LLPS. (See Note 15).

Goodwill by reporting segment consists of the following:

| | Goodwill | Additions | Reductions | Currency Translation Adjustments | Goodwill (a) |
|---|---|---|---|---|---|
| ITPS | $ 566,215 | $ 5,580 (c) | $ | $ (220) | $ 571,575 |
| HS | 86,786 | | | | 86,786 |
| LLPS | 94,324 | | (44,427)(b) | | 49,897 |
| **Balance as of December 31, 2018** | $ 747,325 | $ 5,580 | $ (44,427) | $ (220) | $ 708,258 |
| ITPS | 571,575 | | | (12) | 571,563 |
| HS | 86,786 | | | | 86,786 |
| LLPS | 49,897 | | | | 49,897 |
| **Balance as of June 30, 2019** | $ 708,258 | $ — | $ — | $ (12) | $ 708,246 |

(a) The goodwill amount for all periods presented is net of accumulated impairment losses of $137.9 million.
(b) The reduction in goodwill is due to $44.4 million, including taxes, for impairment recorded in the fourth quarter of 2018.
(c) Addition to goodwill due to the acquisition of Asterion and immaterial acquisitions in the third and fourth quarters of 2018.

**7. Long-Term Debt and Credit Facilities**

**Senior Secured Notes**

On July 12, 2017, the Company issued $1.0 billion in aggregate principal amount of 10.0% First Priority Senior Secured Notes due 2023 with an original issue discount ("OID") of $22.5 million (the "Notes"). The Notes are guaranteed by certain subsidiaries of the Company. The Notes bear interest at a rate of 10.0% per year. The Company pays interest on the Notes on January 15 and July 15 of each year, commencing on January 15, 2018. The Notes will mature on July 15, 2023.

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**Senior Credit Facilities**

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the “Credit Agreement”) providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, a (i) $350.0 million senior secured term loan maturing July 12, 2023 with an OID of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022. As of June 30, 2019 and December 31, 2018, the Company had outstanding irrevocable letters of credit totaling approximately $21.0 million and $20.6 million, respectively, under the senior secured revolving facility.

The Credit Agreement provides for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company’s option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity.

**Term Loan Repricing**

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the “Repricing”). The Repricing was accomplished pursuant to a First Amendment to First Lien Credit Agreement (the “First Amendment”), dated as of July 13, 2018, by and among the Company’s subsidiaries Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each “Subsidiary Loan Party” listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto, whereby the Company borrowed $343.4 million of refinancing term loans (the “Repricing Term Loans”) to refinance the Company’s existing senior secured term loans.

In accordance with ASC 470 -- Debt -- Modifications and Extinguishments, as a result of certain lenders that participated in Exela's debt structure prior to the Repricing and Exela's debt structure after the Repricing, it was determined that a portion of the refinancing of Exela's senior secured credit facilities would be accounted for as a debt modification, and the remaining would be accounted for as an extinguishment. The Company incurred $1.0 million in new debt issuance costs related to the refinancing, of which $1.0 million was expensed pursuant to modification accounting. The proportion of debt that was extinguished resulted in a write off of previously recognized debt issue costs of $0.1 million. Additionally, for the new lenders who exceeded the 10% test, less than $0.1 million was recorded as additional debt issue costs. All unamortized costs and discounts will be amortized over the life of the new term loan using the effective interest rate of the term loan.

The Repricing Term Loans will bear interest at a rate per annum of, at the Company’s option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin of 6.50% for LIBOR loans and 5.50% for base rate loans. The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the Credit Agreement. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

**2018 Incremental Term Loans**

On July 13, 2018, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the “2018 Incremental Term Loans”) under the First Amendment. The proceeds of the 2018 Incremental Term Loans

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were used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment. The interest rates applicable to the Incremental Term Loans are the same as those for the Repricing Term Loans.

The Company may voluntarily repay the Repricing Term Loans and the 2018 Incremental Term Loans (collectively, the "Term Loans") at any time, without prepayment premium or penalty, except in connection with a repricing event as described in the following sentence, subject to customary "breakage" costs with respect to LIBOR rate loans. Any refinancing of the Term Loans through the issuance of certain debt or any repricing amendment, in either case, that constitutes a "repricing event" applicable to the Term Loans resulting in a lower yield occurring at any time during the first six months after July 13, 2018 will be accompanied by a 1.00% prepayment premium or fee, as applicable.

Other than as described above, the terms, conditions and covenants applicable to the Repricing Term Loans and the 2018 Incremental Term Loans are consistent with the terms, conditions and covenants that were applicable to the existing senior secured term loans under the Credit Agreement. The Repricing and issuance of the 2018 Incremental Term Loans resulted in a partial debt extinguishment, for which Exela recognized $1.1 million in debt extinguishment costs in the third quarter of 2018.

**2019 Incremental Term Loan**
On April 16, 2019, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the "2019 Incremental Term Loans") under the Second Amendment to First Lien Credit Agreement (the "Second Amendment"). The proceeds of the 2019 Incremental Term Loans were used to replace the cash spent for acquisitions, pay related fees, expenses and related borrowings and for general corporate purposes.
The 2019 Incremental Term Loans will bear interest at a rate per annum that is the same as the Company's existing Term Loans under the senior credit facility. The 2019 Incremental Term Loans will mature on July 12, 2023, the same maturity date as the Term Loans.
The Company may voluntarily repay the 2019 Incremental Term Loans at any time, without prepayment premium or penalty, subject to customary "breakage" costs with respect to LIBOR rate loans.
Other than as described above, the terms, conditions and covenants applicable to the 2019 Incremental Term Loans are consistent with the terms, conditions and covenants that are applicable to the Repricing Term Loans and 2018 Incremental Term Loans under the Credit Agreement and which are described in the registrant's Current Reports on Form 8-K filed with the Securities and Exchange Commission on July 18, 2017 and July 17, 2018. The Repricing and issuance of the 2018 and 2019 Incremental Term Loans resulted in a partial debt extinguishment, for which Exela recognized $1.4 million in debt extinguishment costs in the second quarter of 2019.

**Long-Term Debt Outstanding**

As of June 30, 2019 and December 31, 2018, the following long-term debt instruments were outstanding:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Other (a) | $ 29,144 | $ 25,321 |
| First lien credit agreement (b) | 365,013 | 335,896 |
| Senior secured notes (c) | 976,670 | 974,443 |
| Total debt | 1,370,827 | 1,335,660 |
| Less: Current portion of long-term debt | (38,929) | (29,237) |
| Long-term debt, net of current maturities | $ 1,331,898 | $ 1,306,423 |

(a) Other debt represents the Company's outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company.

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(b) Net of unamortized original issue discount and debt issuance costs of $7.4 million and $21.4 million as of June 30, 2019 and $8.3 million and $24.5 million as of December 31, 2018.
(c) Net of unamortized debt discount and debt issuance costs of $16.7 million and $6.7 million as of June 30, 2019 and $18.2 million and $7.3 million as of December 31, 2018.

**8. Income Taxes**

The Company applies an estimated annual effective tax rate ("ETR") approach for calculating a tax provision for interim periods, as required under GAAP. The Company recorded an income tax expense of $4.7 million and $1.6 million for the three months ended June 30, 2019 and 2018, respectively. The Company recorded an income tax expense of $9.5 million and $5.6 million for the six months ended June 30, 2019 and 2018, respectively.
The Company's ETR of (16.1%) and (17.3%) for the three and six months ended June 30, 2019 differed from the expected U.S. statutory tax rate of 21.0% and was primarily impacted by permanent tax adjustments, state and local current expense, foreign operations, and valuation allowances, including valuation allowances on a portion of the Company's deferred tax assets on U.S. disallowed interest expense carryforward's created by the provisions of the TCJA.

For the three and six months ended June 30, 2018, the Company's ETR of (6.9%) and (13.0%) differed from the expected U.S. statutory tax rate of 21.0%, and was primarily impacted by permanent tax adjustments, state and local current expense, foreign operations, and valuation allowances, including valuation allowances on a portion of the Company's U.S. disallowed interest expense carryforward's created by the provisions of the TCJA.

As of June 30, 2019, there were no material changes to either the nature or the amounts of the uncertain tax positions previously determined for the year ended December 31, 2018. The Company's valuation allowances have increased by approximately $14.7 million from December 31, 2018 to June 30, 2019 due largely to effects of TCJA relating to interest expense.

**9. Employee Benefit Plans**

**German Pension Plan**

The Company's subsidiary in Germany provides pension benefits to certain retirees. Employees eligible for participation include all employees who started working for the Company prior to September 30, 1987 and have finished a qualifying period of at least 10 years. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan. The German pension plan is an unfunded plan and therefore has no plan assets.

**U.K. Pension Plan**

The Company's subsidiary in the United Kingdom provides pension benefits to certain retirees and eligible dependents. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to October 2001. A retirement pension or a lump-sum payment may be paid dependent upon length of service at the mandatory retirement age. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

**Norway Pension Plan**

The Company's subsidiary in Norway provides pension benefits to eligible retirees and eligible dependents. Employees eligible for participation include all employees who were more than three years from retirement prior to March 2018. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

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**Asterion Pension Plan**

The Company acquired certain pension benefit obligations to eligible retirees and eligible dependents in 2018 pursuant to the Asterion Business Combination. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to July 2003. A retirement pension or a lump-sum payment may be paid dependent upon length of service at the mandatory retirement age. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. As there are no active employees for this plan there are no earned pension entitlements and actuarial assumptions are only measured when assumptions are changed.

**Tax Effect on Accumulated Other Comprehensive Loss**

As of June 30, 2019 and December 31, 2018 the Company recorded actuarial losses of $9.3 million in accumulated other comprehensive loss on the condensed consolidated balance sheets, respectively, which is net of a deferred tax benefit of $2.1 million.

**Pension Expense**

The components of the net periodic benefit cost are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Service cost | $ 23 | $ 158 | $ 46 | $ 160 |
| Interest cost | 602 | 638 | 1,203 | 1,149 |
| Expected return on plan assets | (622) | (804) | (1,244) | (1,429) |
| Amortization: | | | | |
| Amortization of prior service cost | 26 | (31) | 52 | (63) |
| Amortization of net (gain) loss | 413 | 403 | 826 | 807 |
| Net periodic benefit cost | $ 442 | $ 364 | $ 883 | $ 624 |

Upon adopting ASU no. 2017-07 as described in Note 2, the Company now records pension interest cost within Interest expense, net. Expected return on plan assets, amortization of prior service costs, and amortization of net losses are recorded within Other income, net. Service cost is recorded within Cost of revenue.

**Employer Contributions**

The Company’s funding of employer contributions is based on governmental requirements and differs from those methods used to recognize pension expense. The Company made contributions of $1.5 million and $1.2 million to its pension plans during the six months ended June 30, 2019 and 2018, respectively. The Company has funded the pension plans with the required contributions for 2019 based on current plan provisions.

**10. Commitments and Contingencies**

**Appraisal Demand**

On September 21, 2017, former stockholders of SourceHOV Holdings, Inc. (“SourceHOV”), who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the acquisition of SourceHOV and Novitex Holdings, Inc., by Quinpario in July 2017 (“Novitex Business Combination”), which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their SourceHOV shares at the time of the Novitex Business Combination.

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On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). The Court conducted a trial in June 2019 and has scheduled post-trial argument for October 2019. The parties and their experts have offered competing valuations of the SourceHOV shares as of the date of the Novitex Business Combination. The Court may determine a fair value that is above or below the values indicated by the parties and their experts. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate what the Court will determine the fair value of SourceHOV common stock to be as of the date of the Novitex Business Combination.

As a result of the Appraisal Action, 4,570,734 shares of our Common Stock issued to Ex-Sigma 2 LLC, our principal stockholder, will be forfeited at such time as the PIPE Financing (as defined in and pursuant to the terms of the Consent, Waiver and Amendment, dated June 15, 2017) is repaid. The Company continues to vigorously defend the Appraisal Action.

**11. Fair Value Measurement**

**Assets and Liabilities Measured at Fair Value**

The carrying amount of assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable approximated their fair value as of June 30, 2019, and December 31, 2018, due to the relative short maturity of these instruments. Management estimates the fair values of the secured term loan and secured notes at approximately 84.8% and 81.0% respectively, of the respective principal balance outstanding as of June 30, 2019. The carrying value approximates the fair value for the long-term debt. Other debt represents the Company's outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company and as such, the cost incurred would approximate fair value. Property and equipment, intangible assets, capital lease obligations, and goodwill are not required to be re-measured to fair value on a recurring basis. These assets are evaluated for impairment if certain triggering events occur. If such evaluation indicates that impairment exists, the respective asset is written down to its fair value.

The Company determined the fair value of its long-term debt using Level 2 inputs including the recent issue of the debt, the Company’s credit rating, and the current risk-free rate. The Company’s contingent liabilities related to prior acquisitions are re-measured each period and represent a Level 2 measurement as it is based on using an earn out method based on the agreement terms.

The following table provides the carrying amounts and estimated fair values of the Company’s financial instruments as of June 30, 2019, and December 31, 2018. The Company did not perform an independent valuation for the measurement of goodwill for the three and six months ended June 30, 2019; however, the Company has elected to include the amount below which is adjusted for currency translation. (See Note 6).

| | Carrying | Fair | Fair Value Measurements | | |
|---|---|---|---|---|---|
| **As of June 30, 2019** | **Amount** | **Value** | **Level 1** | **Level 2** | **Level 3** |
| **Recurring assets and liabilities:** | | | | | |
| Long-term debt | $ 1,331,898 | $ 1,133,899 | $ — | $ 1,133,899 | $ — |
| Interest rate swap liability | 549 | 549 | — | 549 | — |
| Goodwill | 708,246 | 708,246 | — | — | 708,246 |
| **Nonrecurring assets and liabilities:** | | | | | |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |

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| As of December 31, 2018 | Carrying Amount | Fair Value | Fair Value Measurements Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **Recurring assets and liabilities:** | | | | | |
| Long-term debt | $ 1,306,423 | $ 1,316,306 | $ — | $ 1,316,306 | $ — |
| Interest rate swap | 3,836 | 3,836 | — | 3,836 | — |
| Goodwill | 708,258 | 708,258 | — | — | 708,258 |
| **Nonrecurring assets and liabilities:** | | | | | |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |

The significant unobservable inputs used in the fair value of the Company's acquisition contingent liability are the discount rate, growth assumptions, and revenue thresholds. Significant increases (decreases) in the discount rate would have resulted in a lower (higher) fair value measurement. Significant increases (decreases) in the forecasted financial information would have resulted in a higher (lower) fair value measurement. For all significant unobservable inputs used in the fair value measurement of the Level 3 liabilities, a change in one of the inputs would not necessarily result in a directionally similar change in the other based on the current level of billings.

The following table reconciles the beginning and ending balances of net assets and liabilities classified as Level 3 for which a reconciliation is required:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Balance as of Beginning of Period | $ 721 | $ 721 |
| Payments/Reductions | — | — |
| Balance as of End of Period | $ 721 | $ 721 |

**12. Stock-Based Compensation**

At closing of the Novitex Business Combination, SourceHOV had 24,535 restricted stock units ("RSUs") outstanding under its 2013 Long Term Incentive Plan ("2013 Plan"). Simultaneous with the closing of the Novitex Business Combination, the 2013 Plan, as well as all vested and unvested RSUs under the 2013 Plan, were assumed by Ex-Sigma 2 LLC ("ExSigma"), an entity formed by the former SourceHOV equity holders, which is also the Company's principal stockholder. In accordance with GAAP, the Company continues to incur compensation expense related to the 9,880 unvested RSUs as of July 12, 2017 on a straight-line basis until fully vested, as the recipients of the RSUs are employees of the Company. Subject to continuous employment and other terms of the 2013 Plan, all remaining unvested RSUs with an initial vesting period of three or four years vested in April 2019. As of June 30, 2019, because all shares vested in April 2019, there are no nonvested shares related to the 2013 Plan.

**Exela 2018 Stock Incentive Plan**

On January 17, 2018, Exela's 2018 Stock Incentive Plan (the "2018 Plan") became effective. The 2018 Plan provides for the grant of incentive and nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, performance awards, and other stock-based compensation to eligible participants. The Company is authorized to issue up to 8,323,764 shares of Common Stock under the 2018 Plan.

**Restricted Stock Unit Grants**

Restricted stock unit awards generally vest ratably over a one to two year period. Restricted stock units are subject to forfeiture if employment terminates prior to vesting and are expensed ratably over the vesting period.

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A summary of the status of restricted stock units related to the 2018 Plan as of June 30, 2019 is presented as follows:

| | Number of Shares | Weighted Average Grant Date Fair Value | Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Balance as of December 31, 2018 | 893,297 | $ 5.86 | 0.76 | $ 5,239 |
| Shares granted | 153,190 | | — | — |
| Shares forfeited | (110,800) | — | — | — |
| Shares vested | — | — | — | — |
| Balance as of June 30, 2019 | 935,687 | $ 5.32 | 0.63 | $ 4,980 |

**Options**

Under the 2018 Plan, stock options are granted at a price per share not less than 100% of the fair market value per share of the underlying stock at the grant date. The vesting period for each option award is established on the grant date, and the options generally expire 10 years from the grant date. Options granted under the 2018 Plan generally require no less than a two or four year ratable vesting period. There was no stock option activity for the six months ended June 30, 2018. Stock option activity in the first six months of 2019 is summarized in the following table:

| | Outstanding | Weighted Average Exercise Price | Average Remaining Vesting Period (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Balance as of December 31, 2018 | 3,570,300 | $ 6.06 | 2.92 | $ 9,590 |
| Granted | — | — | — | — |
| Exercised | — | — | — | — |
| Forfeited | (508,200) | — | — | — |
| Expired | — | — | — | — |
| Balance as of June 30, 2019 | 3,062,100 | $ 6.07 | 2.52 | $ 8,225 |

As of June 30, 2019, there was approximately $7.2 million of total unrecognized compensation expense related to non-vested awards for the 2018 Plan, which will be recognized over the respective service period.

Stock-based compensation expense is recorded within Selling, general, and administrative expenses. The Company incurred total compensation expense of $2.6 million and $5.5 million related to plan awards for the three and six months ended June 30, 2019 and $1.9 million and $2.9 million related to plan awards for the three and six months ended June 30, 2018.

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**13. Stockholders' Equity**

The following description summarizes the material terms and provisions of the securities that the Company has authorized.

**Common Stock**

The Company is authorized to issue 1,600,000,000 shares of Common Stock. Except as otherwise required by law or as otherwise provided in any certificate of designation for any series of preferred stock, the holders of Common Stock possess all voting power for the election of Exela's directors and all other matters requiring stockholder action and will at all times vote together as one class on all matters submitted to a vote of Exela stockholders. Holders of Common Stock are entitled to one vote per share on matters to be voted on by stockholders. Holders of Common Stock will be entitled to receive such dividends and other distributions, if any, as may be declared from time to time by the board of directors in its discretion out of funds legally available therefor and shall share equally on a per share basis in such dividends and distributions. The holders of the Common Stock have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the Common Stock. In January 2018, 1,625,000 shares of Series A Preferred Stock were converted into 1,987,767 shares of Common Stock. As of June 30, 2019 and December 31, 2018, there were 152,782,534 and 152,692,140 shares of Common Stock issued, respectively. As of June 30, 2019 and December 31, 2018, there were 150,007,085 and 150,142,955 shares outstanding, respectively.

**Preferred Stock**

The Company is authorized to issue 20,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors. At June 30, 2019 and December 31, 2018, the Company had 4,569,233 shares of Series A Preferred Stock outstanding. The par value of Series A Preferred Stock is $0.0001 per share. Each share of Series A Preferred Stock will be convertible at the holder's option, at any time after the six-month anniversary and prior to the third anniversary of the issue date, initially into 1.2226 shares of Common Stock.

Holders of the Series A Preferred Stock will be entitled to receive cumulative dividends at a rate per annum of 10% of the Liquidation Preference per share of Series A Preferred Stock, paid or accrued quarterly in arrears. From the issue date until the third anniversary of the issue date, the amount of all accrued but unpaid dividends on the Series A Preferred Stock will be added to the Liquidation Preference without any action by the Company's board of directors. For the three months ended June 30, 2019 and 2018 this amount was $0.9 million as reflected on the Consolidated Statement of Operations. For the six months ended June 30, 2019 and 2018 this amount was $1.8 million as reflected on the Consolidated Statement of Operations. The cumulative accrued but unpaid dividends of the Series A Preferred Stock since their inception on July 12, 2017 is $7.9 million. The per share average of cumulative preferred dividends for the three and six months ended June 30, 2019 and 2018 is 0.2 dollars.

Following the third anniversary of the issue date, dividends on the Series A Preferred Stock will be accrued by adding to the Liquidation Preference or paid in cash, or a combination thereof. In addition, holders of the Series A Preferred Stock will participate in any dividend or distribution of cash or other property paid in respect of the Common Stock pro rata with the holders of the Common Stock (other than certain dividends or distributions that trigger an adjustment to the conversion rate, as described in the Certificate of Designations), as if all shares of Series A Preferred Stock had been converted into Common Stock immediately prior to the date on which such holders of the Common Stock became entitled to such dividend or distribution.

**Treasury Stock**

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market

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conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires in 24 months. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. The Company purchased 237,962 shares during the three months ended June 30, 2019 under the Share Buyback Program at an average share price of $2.51. As of June 30, 2019, 2,787,147 shares had been repurchased under the Share Buyback Program and are held in treasury stock. The Company records treasury stock using the cost method.

**Warrants**

At June 30, 2019 there were 34,988,302 warrants outstanding. As part of its IPO, Quinpario had issued 35,000,000 units including one share of common stock and one warrant of which 34,988,302 have been separated from the original unit and 11,698 warrants remain an unseparated part of the originally issued units. The warrants are traded on the OTC Bulletin Board as of June 30, 2019.

Each warrant entitles the holder to purchase one-half of one share of Common Stock at a price of $5.75 per half share ($11.50 per whole share). Warrants may be exercised only for a whole number of shares of Common Stock. No fractional shares will be issued upon exercise of the warrants. Each warrant is currently exercisable and will expire July 12, 2022 (five years after the completion of the Novitex Business Combination), or earlier upon redemption.

The Company may call the warrants for redemption at a price of $0.01 per warrant upon a minimum of 30 days' prior written notice of redemption, if, and only if, the last sales price of shares of Common Stock equals or exceeds $24.00 per share for any 20 trading days within a 30 trading day period (the "30-day trading period") ending three business days before we send the notice of redemption, and if, and only if, there is a current registration statement in effect with respect to the shares of Common Stock underlying such warrants commencing five business days prior to the 30-day trading period and continuing each day thereafter until the date of redemption.

**14. Related-Party Transactions**

**Leasing Transactions**

Certain operating companies lease their operating facilities from HOV RE, LLC and HOV Services Limited, which are affiliates through common interest held by Ex-Sigma 2 LLC, our largest stockholder. The rental expense for these operating leases was $0.1 million and $0.2 million for the three months ended June 30, 2019 and 2018, respectively, and $0.3 million and $0.4 million for the six months ended June 30, 2019 and 2018, respectively.

**Consulting Agreement**

The Company receives services from Oakana Holdings, Inc. The Company and Oakana Holdings, Inc. are related through a family relationship between certain shareholders and the president of Oakana Holdings, Inc. The expense recognized for these services was $0.1 million for the three months ended June 30, 2019 and 2018, respectively. The expense recognized for these services was $0.1 million for the six months ended June 30, 2019 and 2018, respectively.

The Company received consulting services from Shadow Pond, LLC. Shadow Pond, LLC is wholly owned and controlled by Vik Negi, our Executive Vice President Treasury and Business Affairs. The consulting arrangement was established to compensate Mr. Negi for his services to the Company prior to becoming an employee. The expense recognized for these services was $0.1 and $0.2 million for the three and six months ended June 30, 2018, respectively. This consulting arrangement with Shadow Pond, LLC terminated on April 1, 2018 and Mr. Negi continues to provide services as an employee of the Company. As such, there were no additional expenses for the three and six months ended June 30, 2019.

**Relationship with HandsOn Global Management**

Pursuant to a master agreement dated January 1, 2015 between Rule 14, LLC and SourceHOV, the Company incurs marketing fees to Rule 14, LLC, a portfolio company of HOVS LLC and HandsOn Fund 4 I, LLC ("HGM"). Similarly,

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SourceHOV is party to ten master agreements with entities affiliated with HGM's managed funds, each of which were entered into during 2015 and 2016. Each master agreement provides SourceHOV with free use of technology and includes a reseller arrangement pursuant to which SourceHOV is entitled to sell these services to third parties. Any revenue earned by SourceHOV in such third-party sale is shared 75%/25% with each of HGM's venture affiliates in favor of SourceHOV. The brands Zuma, Athena, Peri, BancMate, Spring, Jet, Teletype, CourtQ and Rewardio are part of the HGM managed funds. SourceHOV has the license to use and resell such brands, as described therein. The fee relating to these agreements was $0.1 million and $0.2 million for the three months ended June 30, 2019 and 2018, respectively. The Company incurred fees relating to these agreements of $0.1 million and $0.1 million for the six months ended June 30, 2019 and 2018, respectively.

**Relationship with HOV Services, Ltd.**

HOV Services, Ltd. provides the Company data capture and technology services. HOV Services, Ltd is an indirect equity holder of Ex-Sigma 2 LLC. The expense recognized for these services was $0.4 million for the three months ended June 30, 2019 and 2018, respectively, and $0.8 million for the six months ended June 30, 2019 and 2018, respectively. These expenses are included in cost of revenue in the consolidated statements of operations.

**Relationship with Apollo Global Management, LLC**

The Company provides services to and receives services from certain Apollo Global Management, LLC (“Apollo”) affiliated companies. Funds managed by Apollo have the right to designate two of the Company’s directors. On November 18, 2014, the Company's subsidiary, Exela Enterprises Solutions, Inc. (“Solutions”), entered into a master services agreement with Management Holdings, an indirect wholly owned subsidiary of Apollo. Pursuant to this master services agreement, Solutions provides Management Holdings printer supplies and maintenance services, including toner maintenance, training, quarterly business review and printer procurement. The Company recognized revenue of $0.2 million in our consolidated statements of operations from Apollo affiliated companies under this agreement for the three months ended June 30, 2019 and 2018, respectively. The company recognized revenue of $0.3 million for the six months ended June 30, 2019 and 2018, respectively, in our consolidated statements of operations from Apollo affiliated companies under this agreement.
On January 18, 2017, Solutions entered into a master purchase and professional services agreement with Caesars Enterprise Services, LLC ("Caesars"). Caesars is controlled by investment funds affiliated with Apollo. Pursuant to this master purchase and professional services agreement, Solutions provides managed print services to Caesars, including general equipment operation, supply management, support services and technical support. The Company recognized revenue of approximately $1.1 million and $1.0 million in our consolidated statements of operations from Caesars under this master purchase and professional services agreement for the three months ended June 30, 2019 and 2018, respectively. The Company recognized revenue of approximately $2.2 million and $2.0 million in our consolidated statements of operations from Caesars under this master purchase and professional services agreement for the six months ended June 30, 2019 and 2018, respectively.

On May 5, 2017, Solutions entered into a master services agreement with ADT LLC. ADT LLC is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Solutions provides ADT LLC with mailroom and onsite mail delivery services at an ADT LLC office location and managed print services, including supply management, equipment maintenance and technical support services. The Company recognized revenue of $0.3 million and $0.1 million in our consolidated statements of operations from ADT LLC under this master services agreement for the three months ended June 30, 2019 and 2018, respectively. The Company recognized revenue of $0.6 million and $0.2 million in our consolidated statements of operations from ADT LLC under this master services agreement for the six months ended June 30, 2019 and 2018, respectively.

On July 20, 2017, Solutions entered into a master services agreement with Diamond Resorts Centralized Services Company. Diamond Resorts Centralized Services Company is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, Solutions provides commercial print and promotional product procurement services to Diamond Resorts Centralized Services Company, including sourcing, inventory management and fulfillment services. The Company recognized revenue of $0.9 million and $1.7 million for the three months ended June 30, 2019

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and 2018, respectively, from Diamond Resorts Centralized Services Company under this master services agreement. The Company recognized revenue of $2.6 million and $4.2 million for the six months ended June 30, 2019 and 2018, respectively, and cost of revenue of $0.1 million for the six months ended June 30, 2019 and 2018, respectively, from Diamond Resorts Centralized Services Company under this master services agreement.

In April 2016, Solutions entered into a master services agreement with Presidio Networked Solutions Group, LLC ("Presidio Group"), a wholly owned subsidiary of Presidio, Inc., a portion of which is owned by affiliates of Apollo and with a common Apollo designated director. Pursuant to this master services agreement, Presidio Group provides Solutions with employees, subcontractors, and/or goods and services. For the three months ended June 30, 2019 and 2018 there were related party expenses of $0.2 million, respectively, for this service. For the six months ended June 30, 2019 and 2018 there were related party expenses of $0.4 million and $0.3 million, respectively, for this service.

**Payable and Receivable Balances with Affiliates**

Payable and receivable balances with affiliates as of June 30, 2019 and December 31, 2018 are as follows below. As of December 31, 2018 there were no related party receivables.

| | June 30, 2019 | | December 31, 2018 |
|---|---|---|---|
| | Receivable | Payable | Payable |
| HOV Services, Ltd | $ 189 | $ — | $ 405 |
| Rule 14 | — | 145 | 127 |
| HGM | 17 | — | 6,998 |
| Apollo affiliated company | — | 91 | 205 |
| Oakana | — | 2 | — |
| | $ 206 | $ 238 | $ 7,735 |

**15. Segment and Geographic Area Information**

The Company's operating segments are significant strategic business units that align its products and services with how it manages its business, approach the markets and interacts with its clients. The Company is organized into three segments: ITPS, HS, and LLPS.

**ITPS:** The ITPS segment provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries.

**HS:** The HS segment operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets.

**LLPS:** The LLPS segment provides a broad and active array of legal services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters.

The chief operating decision maker reviews operating segment revenue and cost of revenue. The Company does not allocate Selling, general, and administrative expenses, depreciation and amortization, interest expense and sundry, net. The Company manages assets on a total company basis, not by operating segment, and therefore asset information and capital expenditures by operating segments are not presented.

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| | Three months ended June 30, 2019 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 309,152 | $ 63,440 | $ 17,568 | $ 390,160 |
| Cost of revenue | 246,779 | 40,338 | 10,889 | 298,006 |
| Selling, general and administrative expenses | | | | 51,564 |
| Depreciation and amortization | | | | 27,191 |
| Related party expense | | | | 1,055 |
| Interest expense, net | | | | 39,132 |
| Debt modification and extinguishment costs | | | | 1,404 |
| Sundry income, net | | | | (1,493) |
| Other expense, net | | | | 2,709 |
| Net loss before income taxes | | | | $ (29,408) |

| | Three months ended June 30, 2018 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 330,132 | $ 56,314 | $ 23,936 | $ 410,382 |
| Cost of revenue (exclusive of depreciation and amortization) | 261,131 | 39,260 | 13,563 | 313,954 |
| Selling, general and administrative expenses | | | | 46,723 |
| Depreciation and amortization | | | | 36,368 |
| Related party expense | | | | 1,402 |
| Interest expense, net | | | | 38,527 |
| Sundry income, net | | | | (2,325) |
| Other income, net | | | | (704) |
| Net loss before income taxes | | | | $ (23,563) |

| | Six months ended June 30, 2019 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 633,731 | $ 124,783 | $ 35,410 | $ 793,924 |
| Cost of revenue | 504,168 | 78,844 | 21,876 | 604,888 |
| Selling, general and administrative expenses | | | | 101,512 |
| Depreciation and amortization | | | | 55,211 |
| Related party expense | | | | 2,050 |
| Interest expense, net | | | | 78,031 |
| Debt modification and extinguishment costs | | | | 1,404 |
| Sundry expense, net | | | | 1,038 |
| Other expense, net | | | | 4,385 |
| Net loss before income taxes | | | | $ (54,595) |

| | Six months ended June 30, 2018 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 642,068 | $ 114,946 | $ 46,535 | $ 803,549 |
| Cost of revenue | 506,304 | 74,216 | 27,226 | 607,746 |
| Selling, general and administrative expenses | | | | 92,318 |
| Depreciation and amortization | | | | 74,386 |
| Related party expense | | | | 2,508 |
| Interest expense, net | | | | 76,544 |
| Sundry income, net | | | | (2,389) |
| Other income, net | | | | (4,032) |
| Net loss before income taxes | | | | $ (43,532) |

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion and analysis together with our condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q. Among other things, the condensed consolidated financial statements include more detailed information regarding the basis of presentation for the financial data than included in the following discussion. Amounts in thousands of United States dollars.*

***Forward Looking Statements***

*Certain statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this quarterly report are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by words such as "may", "should", "would", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "seem", "seek", "continue", "future", "will", "expect", "outlook" or other similar words, phrases or expressions. These forward-looking statements include statements regarding our industry, future events, estimated or anticipated future results and benefits, future opportunities for Exela, and other statements that are not historical facts. These statements are based on the current expectations of Exela management and are not predictions of actual performance. These statements are subject to a number of risks and uncertainties regarding Exela's businesses and actual results may differ materially. The factors that may affect our results include, among others: the impact of political and economic conditions on the demand for our services; the impact of a data or security breach; the impact of competition or alternatives to our services on our business pricing and other actions by competitors; our ability to address technological development and change in order to keep pace with our industry and the industries of our customers; the impact of terrorism, natural disasters or similar events on our business; the effect of legislative and regulatory actions in the United States and internationally; the impact of operational failure due to the unavailability or failure of third-party services on which we rely; the effect of intellectual property infringement; and other factors discussed in this quarterly report and our Annual Report on Form 10-K for the year ended December 31, 2018 (our "Annual Report") under the heading "Risk Factors" as supplemented by risk factors described in Part II, "Item 1A. Risk Factors" of our quarterly report for the quarter ended June 30, 2019, and otherwise identified or discussed in this quarterly report. You should consider these factors carefully in evaluating forward-looking statements and are cautioned not to place undue reliance on such statements, which speak only as of the date of this quarterly report. It is impossible for us to predict new events or circumstances that may arise in the future or how they may affect us. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this quarterly report. We are not including the information provided on the websites referenced herein as part of, or incorporating such information by reference into, this quarterly report. In addition, forward-looking statements provide Exela's expectations, plans or forecasts of future events and views as of the date of this quarterly report. Exela anticipates that subsequent events and developments may cause Exela's assessments to change. These forward-looking statements should not be relied upon as representing Exela's assessments as of any date subsequent to the date of this quarterly report.*

**Overview**

Exela is a business process automation (BPA) leader, leveraging a global footprint and proprietary technology to provide digital transformation solutions enhancing quality, productivity, and end-user experience. With decades of expertise operating mission-critical processes, Exela serves a growing roster of more than 4,000 customers throughout 50 countries, including over 60% of the Fortune 100. With foundational technologies spanning information management, workflow automation, and integrated communications, Exela's software and services include multi-industry department solution suites addressing finance and accounting, human capital management, and legal management, as well as industry-specific solutions for banking, healthcare, insurance, and public sectors. Through cloud-enabled platforms, built on a configurable stack of automation modules, and over 22,000 employees operating in 23 countries, Exela rapidly deploys integrated technology and operations as an end-to-end digital journey partner.

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**History**

We are a former blank check company that completed our initial public offering on January 22, 2015. In July 2017, Exela Technologies, Inc. ("Exela"), formerly known as Quinpario Acquisition Corp. 2 ("Quinpario"), completed its acquisition of SourceHOV Holdings, Inc. ("SourceHOV") and Novitex Holdings, Inc. ("Novitex") pursuant to the business combination agreement dated February 21, 2017 ("Novitex Business Combination"). In conjunction with the completion of the Novitex Business Combination, Quinpario was renamed as Exela Technologies, Inc.

The Novitex Business Combination was accounted for as a reverse merger for which SourceHOV was determined to be the accounting acquirer. Outstanding shares of SourceHOV were converted into equity in a newly formed entity that acquired our common shares, presented as a recapitalization, and the net assets of Quinpario were acquired at historical cost, with no goodwill or other intangible assets recorded. The acquisition of Novitex was treated as a business combination under ASC 805 and was accounted for using the acquisition method. The strategic combination of SourceHOV and Novitex formed Exela, which is one of the largest global providers of information processing solutions based on revenues.

**Our Segments**

Our three reportable segments are Information & Transaction Processing Solutions ("ITPS"), Healthcare Solutions ("HS"), and Legal & Loss Prevention Services ("LLPS"). These segments are comprised of significant strategic business units that align our transaction processing solutions and enterprise information management products and services with how we manage our business, approach our key markets and interact with our customers based on their respective industries.

**ITPS:** Our largest segment, ITPS, provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries. Our major customers include the top 10 U.S. banks, 7 of the top 10 U.S. insurance companies, 4 of the top 5 U.S. telecom companies, over 40 utility companies, and over 400 state and local government entities. Our ITPS offerings enable companies to increase availability of working capital, reduce turnaround times for application processes, increase regulatory compliance and enhance consumer engagement.

**HS:** Our HS segment operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets. We serve the top 5 healthcare insurance payers and over 900 healthcare providers.

**LLPS:** Our LLPS segment provides a broad and active array of support services in connection with class action, bankruptcy, labor, claims adjudication and employment and other legal matters. Our customer base consists of corporate counsel, government attorneys, and law firms.

**Acquisitions**

On April 10, 2018, Exela completed the acquisition of Asterion International Group ("Asterion"), a well-established provider of technology driven business process outsourcing, document management and business process automation ("BPA") across Europe. Asterion currently serves over 250 key customers in Europe from 13 operating locations and 30 customer sites. The purchase price was approximately $19.5 million. The acquisition comes with minimal customer overlap and is strategic to expand Exela's pro forma combined European business to over $200 million in annual revenue. This acquisition not only enables Asterion's customers to access Exela's full suite of BPA solutions but also strategically positions Exela to expand its existing revenue base through a broader portfolio of offerings with a larger European presence.

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**Revenues**

ITPS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed, licensing and maintenance fees for technology sales, and a mix of fixed management fee and transactional revenue for document logistics and location services. HS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed for healthcare payers and providers. LLPS revenues are primarily based on time and materials pricing as well as through transactional services priced on a per item basis.

**People**

We draw on the business and technical expertise of our talented and diverse global workforce to provide our customers with high-quality services. Our business leaders bring a strong diversity of experience in our industry and a track record of successful performance and execution.

Costs associated with our employees represent the most significant expense for our business. We incurred personnel costs of $181.0 million and $180.6 million for the three months ended June 30, 2019 and 2018, respectively. We incurred personnel costs of $359.0 million and $347.7 million for the six months ended June 30, 2019 and 2018, respectively. The majority of our personnel costs are variable and incurred only while we are providing our services.

**Key Performance Indicators**

We use a variety of operational and financial measures to assess our performance. Among the measures considered by our management are the following:

- Revenue by segment;
- EBITDA; and
- Adjusted EBITDA

***Revenue by segment***

We analyze our revenue by comparing actual monthly revenue to internal projections and prior periods across our operating segments in order to assess performance, identify potential areas for improvement, and determine whether our segments are meeting management's expectations.

***EBITDA and Adjusted EBITDA***

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integrations costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses. See ''—Other Financial Information (Non-GAAP Financial Measures)'' for more information and a reconciliation of EBITDA and Adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP.

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**Results of Operations**

**Three Months Ended June 30, 2019 compared to Three Months Ended June 30, 2018:**

| | Three Months Ended June 30, 2019 | Three Months Ended June 30, 2018 | Change | % Change |
|---|---|---|---|---|
| Revenue: | | | | |
| ITPS | $ 309,152 | $ 330,132 | $ (20,980) | -6.36% |
| HS | 63,440 | 56,314 | 7,126 | 12.65% |
| LLPS | 17,568 | 23,936 | (6,368) | -26.60% |
| Total revenue | 390,160 | 410,382 | (20,222) | -4.93% |
| Cost of revenue (exclusive of depreciation and amortization): | | | | |
| ITPS | 246,779 | 261,131 | (14,352) | -5.50% |
| HS | 40,338 | 39,260 | 1,078 | 2.75% |
| LLPS | 10,889 | 13,563 | (2,674) | -19.72% |
| Total cost of revenues | 298,006 | 313,954 | (15,948) | -5.08% |
| Selling, general and administrative expenses | 51,564 | 46,723 | 4,841 | 10.36% |
| Depreciation and amortization | 27,191 | 36,368 | (9,177) | -25.23% |
| Related party expense | 1,055 | 1,402 | (347) | -24.75% |
| Operating income | 12,344 | 11,935 | 409 | 3.43% |
| Interest expense, net | 39,132 | 38,527 | 605 | 1.57% |
| Debt modification and extinguishment costs | 1,404 | — | 1,404 | — |
| Sundry expense (income), net | (1,493) | (2,325) | 832 | -35.78% |
| Other expense (income), net | 2,709 | (704) | 3,413 | -484.80% |
| Net loss before income taxes | (29,408) | (23,563) | (5,845) | 24.81% |
| Income tax benefit | (4,738) | (1,619) | (3,119) | 192.65% |
| Net loss | $ (34,146) | $ (25,182) | $ (8,964) | 35.60% |

***Revenue***

Our ITPS, HS, and LLPS segments constituted 79.2%, 16.3%, and 4.5% of total revenue, respectively, for the three months ended June 30, 2019, compared to 80.4%, 13.7%, and 5.8%, respectively, for the three months ended June 30, 2018. The revenue changes by reporting segment were as follows:

ITPS— The decrease was primarily attributable to a decline of $21.9 million related to certain statements of work from one customer in the enterprise solutions business and a decline in postage revenue. This was offset by 2018 acquisitions and ramp up of new customers.

HS—The increase was primarily attributable to ramp up of new customers and acquisitions.

LLPS— Revenues are event driven and were negatively impacted by projects that generated lower revenue.

***Cost of Revenue***

The cost of revenue changes by operating segment was as follows:

ITPS— The decrease corresponds with the related revenue decrease and continued transformation and cost saving initiatives.

HS—The increase primarily corresponded with the related revenue increase.

LLPS— The decrease was primarily attributable to a corresponding decrease in revenue in legal claims administration services.

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***Selling, General and Administrative Expenses***

For the three months ended June 30, 2019, SG&A was $4.8 million higher than the three months ended June 30, 2018, mainly driven by higher stock compensation expense related to the equity awards granted to certain employees in the second half of 2018. The increase was also driven by a one time customer exit cost write off of $1.9 million during the three months ended June 30, 2019.

***Depreciation & Amortization***

Amortization expenses were $9.2 million lower for the three months ended June 30, 2019 as compared to the three months ended June 30, 2018, as a result of accelerated trade name write off during the financial year 2018. The accelerated trade name write off ended on December 31, 2018.

***Related Party Expenses***

Related party expenses remained materially consistent with the prior year period.

***Interest Expense***

The Company pays interest on a semi-annual basis in the first and third quarters of each year; as such, interest expense remained materially consistent with the prior year period.

***Sundry Expense (Income)***

The increase of $0.8 million over the prior year period was primarily attributable to foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

The decrease of $3.4 million over the prior year period is primarily attributable to an interest rate swap entered into in 2017. The interest rate swap was not designated as a hedge. As such, changes in the fair value of this derivative instrument are recorded directly in earnings. For the three months ended June 30, 2019, the fair value of the interest swap decreased $2.7 million and for the three months ended June 30, 2018, the fair value increased $0.7 million.

***Income Tax (Expense) Benefit***

We had an income tax expense of $4.7 million for the three months ended June 30, 2019, compared to an income tax expense of $1.6 million for the three months ended June 30, 2018. The change in the income tax expense was primarily attributable to our change in judgment related to the realizability of certain deferred tax assets. The change in the effective tax rate for the three months ended June 30, 2019, resulted from permanent tax adjustments and valuation allowances, including valuation allowances against disallowed interest expense deferred tax assets that are not more-likely-than-not to be realized.

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**Six Months Ended June 30, 2019 compared to Six Months Ended June 30, 2018:**

| | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 | Change | % Change |
|---|---|---|---|---|
| Revenue: | | | | |
| ITPS | $ 633,731 | $ 642,068 | $ (8,337) | -1.30% |
| HS | 124,783 | 114,946 | 9,837 | 8.56% |
| LLPS | 35,410 | 46,535 | (11,125) | -23.91% |
| Total revenue | 793,924 | 803,549 | (9,625) | -1.20% |
| Cost of revenue (exclusive of depreciation and amortization: | | | | |
| ITPS | 504,168 | 506,304 | (2,136) | -0.42% |
| HS | 78,844 | 74,216 | 4,628 | 6.24% |
| LLPS | 21,876 | 27,226 | (5,350) | -19.65% |
| Total cost of revenues | 604,888 | 607,746 | (2,858) | -0.47% |
| Selling, general and administrative expenses | 101,512 | 92,318 | 9,194 | 9.96% |
| Depreciation and amortization | 55,211 | 74,386 | (19,175) | -25.78% |
| Related party expense | 2,050 | 2,508 | (458) | -18.26% |
| Operating income | 30,263 | 26,591 | 3,672 | 13.81% |
| Interest expense, net | 78,031 | 76,544 | 1,487 | 1.94% |
| Debt modification and extinguishment costs | 1,404 | — | 1,404 | — |
| Sundry expense (income), net | 1,038 | (2,389) | 3,427 | -143.45% |
| Other expense (income), net | 4,385 | (4,032) | 8,417 | -208.75% |
| Net loss before income taxes | (54,595) | (43,532) | (11,063) | 25.41% |
| Income tax benefit | (9,459) | (5,644) | (3,815) | 67.59% |
| Net loss | $ (64,054) | $ (49,176) | $ (14,878) | 30.25% |

***Revenue***

Our ITPS, HS, and LLPS segments constituted 79.8%, 15.7%, and 4.5% of total revenue, respectively, for the six months ended June 30, 2019, compared to 79.9%, 14.3%, and 5.8%, respectively, for the six months ended June 30, 2018. The revenue changes by reporting segment were as follows:

ITPS— The decrease was primarily attributable to a decline of $39.4 million related to certain statements of work from one customer in the enterprise solutions business. The decrease was offset by an increase due to 2018 acquisitions and ramp up of new customers.

HS— The increase was primarily attributable to ramp up of new customers and acquisitions, offset by a decline in volume from a single customer who lost a contract from one of its customers.

LLPS— Revenues decreased due to a decline in legal claims administration services of $8.6 million.

***Cost of Revenue***

The cost of revenue changes by operating segment was as follows:

ITPS— The decrease corresponds with the related revenue decrease due to a decline in certain statements of work from one customer in the enterprise solutions business.

HS— The increases primarily corresponded with the related revenue increase.

LLPS— The decrease was primarily attributable to a corresponding decrease in revenue in legal claims administration services.

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***Selling, General and Administrative Expenses***

For the six months ended June 30, 2019, SG&A was $9.2 million higher than the six months ended June 30, 2019, mainly driven by higher stock compensation expense related to the equity awards granted to certain employees in the second half of 2018. The increase was also driven by higher investments in sales and strategy teams to drive the growth of the Company.

***Depreciation & Amortization***

Amortization expenses were $19.2 million lower for the six months ended June 30, 2019, as compared to the six months ended June 30, 2018, as a result of accelerated trade name write off during the financial year 2018. The accelerated trade name write off ended on December 31, 2018.

***Related Party Expenses***

Related party expenses remained materially consistent with the prior year period.

***Interest Expense***

The Company pays interest on a semi-annual basis in the first and third quarters of each year; as such, interest expense remained materially consistent with the prior year period.

***Sundry Expense (Income)***

The increase of $3.4 million over the prior year period was primarily attributable to foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

The decrease of $8.4 million over the prior year period is primarily attributable to an interest rate swap entered into in 2017. The interest rate swap was not designated as a hedge. As such, changes in the fair value of this derivative instrument are recorded directly in earnings. For the six months ended June 30, 2019, the fair value of the interest swap decreased $4.4 million and for the six months ended June 30, 2018, the fair value increased $4.0 million.

***Income Tax (Expense) Benefit***

We had an income tax expense of $9.5 million for the six months ended June 30, 2019, compared to an income tax expense of $5.6 million for the six months ended June 30, 2018. The change in the income tax expense was primarily attributable to our change in judgment related to the realizability of certain deferred tax assets. The change in the effective tax rate for the six months ended June 30, 2019, resulted from permanent tax adjustments and valuation allowances, including valuation allowances against disallowed interest expense deferred tax assets that are not more-likely-than-not to be realized.

**Other Financial Information (Non-GAAP Financial Measures)**

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integrations costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses.

We present EBITDA and Adjusted EBITDA because we believe they provide useful information regarding the factors and trends affecting our business in addition to measures calculated under GAAP. Additionally, our credit

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agreement requires us to comply with certain EBITDA related metrics. Refer to ''—Liquidity and Capital Resources—Credit Facility.''

***Note Regarding Non-GAAP Financial Measures***

EBITDA and Adjusted EBITDA are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial performance and results of operations as our board of directors and management use EBITDA and Adjusted EBITDA to assess our financial performance, because it allows them to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization) and items outside the control of our management team. Net loss is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some but not all items that affect the most directly comparable GAAP financial measures. You should not consider EBITDA and Adjusted EBITDA in isolation or as substitutes for an analysis of our results as reported under GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

**Three Months ended June 30, 2019 compared to the Three Months ended June 30, 2018**

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the three months ended June 30, 2019 and 2018. 2018 reconciliation items

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between EBITDA and Adjusted EBITDA have been adjusted for comparability purposes in the table below. EBITDA and Adjusted EBITDA for the three months ended June 30, 2018 remains unchanged.

| | Three Months Ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Net Loss | $ (34,146) | $ (25,182) |
| Taxes | 4,738 | 1,619 |
| Interest Expense | 39,132 | 38,527 |
| Depreciation and Amortization | 27,191 | 36,368 |
| EBITDA | 36,915 | 51,332 |
| Optimization and restructuring expenses (1) | 18,708 | 8,904 |
| *Process transformation* | 17,562 | 8,904 |
| *Customer transformation* | 25 | — |
| *Mergers and acquisitions* | 1,121 | — |
| Transaction and integration costs (2) | 2,030 | 819 |
| Non-cash equity compensation (3) | 2,661 | 1,936 |
| Other charges including non-cash (4) | 4,771 | 6,720 |
| Loss on sale of assets (5) | 207 | 367 |
| Loss on business disposals (6) | — | 720 |
| Debt modification and extinguishment costs | 1,404 | — |
| Gain/Loss on derivative instruments (7) | 2,708 | (704) |
| Adjusted EBITDA | $ 69,404 | $ 70,094 |

1. Adjustment represents net salary and benefits associated with positions, current vendor expenses and existing lease contracts that are part of the on-going savings and productivity improvement initiatives in process transformation, customer transformation and post-merger or acquisition integration.
2. Represents costs incurred related to transactions for completed or contemplated transactions during the period.
3. Represents the non-cash charges related to restricted stock units and options granted by Ex-Sigma 2 LLC and Exela to our employees that vested during the year.
4. Represents fair value adjustments to deferred revenue and deferred rent accounts established as part of purchase accounting and other non-cash charges. Other charges include severance, retention bonus, facility consolidation and other transition costs.
5. Represents a loss recognized on the disposal of property, plant, and equipment and other assets.
6. Represents a gain recognized on the disposal of Meridian Consulting Group, LLC.
7. Represents the impact of changes in the fair value of an interest rate swap entered into during the fourth quarter of 2017.

***EBITDA and Adjusted EBITDA***

EBITDA was $36.9 million for the three months ended June 30, 2019, compared to $51.3 million for the three months ended June 30, 2018. Adjusted EBITDA was $69.4 million for the three months ended June 30, 2019, compared to $70.1 million for the three months ended June 30, 2018. The decrease in EBITDA for the three months ended June 30, 2019 was primarily due to a higher net loss and a decrease in depreciation and amortization as a result of ending the accelerated trade name write off on December 31, 2018.

**Six Months ended June 30, 2019 compared to the Six Months ended June 30, 2018**

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the six months months ended June 30, 2019 and 2018. 2018 reconciliation

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items between EBITDA and Adjusted EBITDA have been adjusted for comparability purposes in the table below. EBITDA and Adjusted EBITDA for the six months ended June 30, 2018 remains unchanged.

| | Six Months Ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Net Loss | $ (64,054) | $ (49,176) |
| Taxes | 9,459 | 5,644 |
| Interest expense | 78,031 | 76,545 |
| Depreciation and amortization | 55,211 | 74,386 |
| EBITDA | 78,647 | 107,399 |
| Optimization and restructuring expenses (1) | 42,369 | 18,623 |
| *Process transformation* | 39,503 | 18,623 |
| *Customer transformation* | 102 | — |
| *Mergers and acquisitions* | 2,763 | — |
| Transaction and integration costs (2) | 3,038 | 1,876 |
| Non-cash equity compensation (3) | 5,460 | 2,895 |
| Other charges including non-cash (4) | 7,737 | 11,514 |
| Loss on sale of assets (5) | 426 | 665 |
| Loss on business disposals (6) | — | 720 |
| Debt modification and extinguishment costs | 1,404 | — |
| Gain/Loss on derivative instruments (7) | 4,385 | (4,032) |
| Adjusted EBITDA | $ 143,466 | $ 139,660 |

1. Adjustment represents net salary and benefits associated with positions, current vendor expenses and existing lease contracts that are part of the on-going savings and productivity improvement initiatives in process transformation, customer transformation and post-merger or acquisition integration.
2. Represents costs incurred related to transactions for completed or contemplated transactions during the period.
3. Represents the non-cash charges related to restricted stock units and options granted by Ex-Sigma 2 LLC and Exela to our employees that vested during the year.
4. Represents fair value adjustments to deferred revenue and deferred rent accounts established as part of purchase accounting and other non-cash charges. Other charges include severance, retention bonus, facility consolidation and other transition costs.
5. Represents a loss recognized on the disposal of property, plant, and equipment and other assets.
6. Represents a gain recognized on the disposal of Meridian Consulting Group, LLC.
7. Represents the impact of changes in the fair value of an interest rate swap entered into during the fourth quarter of 2017.

***EBITDA and Adjusted EBITDA***

EBITDA was $78.6 million for the six months ended June 30, 2019, compared to $107.4 million for the six months ended June 30, 2018. Adjusted EBITDA was $143.5 million for the six months ended June 30, 2019, compared to $139.7 million for the six months ended June 30, 2018. The decrease in EBITDA for the six months ended June 30, 2019, was primarily due to a higher net loss and a decrease in depreciation and amortization as a result of ending the accelerated trade name write off on December 31, 2018.

**Liquidity and Capital Resources**

**Overview**

Our primary source of liquidity is cash generated from operating activities, supplemented as necessary on a short-term basis by borrowings against our senior secured revolving credit facility. We believe our current level of cash and short-term financing capabilities along with future cash flows from operations are sufficient to meet the needs of the business.

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We currently expect to spend approximately $40 to $45 million on total capital expenditures over the next twelve months. We believe that our operating cash flow and available borrowings under our credit facility will be sufficient to fund our operations for at least the next twelve months.

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under our senior secured credit facilities (the "Repricing Term Loans"). The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement (the "Credit Agreement").

On July 13, 2018, the Company borrowed a further $30.0 million pursuant to incremental term loans under the Credit Agreement. On April 16, 2019, the Company borrowed an additional $30.0 million pursuant to incremental term loans under the Credit Agreement. The proceeds of these incremental term loans (collectively, the "Incremental Term Loans") were used to replace the cash spent for acquisitions, pay related fees, expenses and related borrowings and for general corporate purposes.

The Repricing Term Loans and the Incremental Term Loans bear interest at a rate per annum consisting of, at the Company's option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin of 6.50% for LIBOR loans and 5.50% for base rate loans. The Repricing Term Loans and the Incremental Term Loans will mature on July 12, 2023.

At June 30, 2019, cash and cash equivalents totaled $23.4 million and we had availability of $79.0 million under our senior secured revolving credit facility.

**Cash Flows**

The following table summarizes our cash flows for the periods indicated:

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | % Change |
| Cash flow from operating activities | $ (4,776) | $ 48,251 | $ (53,027) | -109.90% |
| Cash flow used in investing activities | (28,499) | (19,185) | (9,314) | 48.55% |
| Cash flows (used in) provided by financing activities | 12,736 | (23,274) | 36,010 | -154.72% |
| Subtotal | (20,539) | 5,792 | (26,331) | -454.61% |
| Effect of exchange rates on cash | 111 | (410) | 521 | -127.07% |
| Net increase/(decrease) in cash | (20,428) | 5,382 | (25,810) | -479.56% |

**Analysis of Cash Flow Changes between the Six Months Ended June 30, 2019 and June 30, 2018**

Operating Activities—The decrease of $53.0 million in cash flows from operating activities for the six months ended June 30, 2019 was primarily due to higher cash inflows in 2018 due to receipt of settlement funds for the legal business, changes in accounts payable and accrued liabilities, and a decrease in related party payables in 2019. The decrease was offset by higher cash flows from accounts receivable in 2019.

Investing Activities—The decrease of $9.3 million in cash used in investing activities was primarily due to additional outsourcing contract costs for the six months ended June 30, 2019 due to the ramp of new revenue. The increase was offset by a decrease in cash paid for acquisitions.

Financing Activities—The increase of $36.0 million in cash provided by financing activities was primarily due to proceeds from the incremental term loan in April 2019 and lower equity issuance costs, offset by increases in principal payments on long-term obligations and a stock repurchase payment that was accrued for as of December 31, 2018 and paid in the first quarter of 2019.

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**Indebtedness**

In connection with the Novitex Business Combination, we acquired debt facilities and issued notes totaling $1.4 billion. Proceeds from the indebtedness were used to pay off credit facilities existing immediately before the Novitex Business Combination.

*Senior Credit Facilities*

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the "Credit Agreement") providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, (i) a $350.0 million senior secured term loan maturing July 12, 2023 with an original issue discount of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022. The Credit Agreement provided for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company's option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility was 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility was 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity. As of June 30, 2018 the interest rate applicable for the first lien senior secured term loan was 9.83%.

*Senior Secured Notes*

Senior secured notes of $1.0 billion due July 2023 were also issued as part of the Novitex Business Combination. The notes bear interest at a rate of 10.0% per year. We pay interest on the notes on January 15 and July 15 of each year, commencing on January 15, 2018. The notes are guaranteed by subsidiary guarantors pursuant to a supplemental indenture.

*Term Loan Repricing*

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the "Repricing"). The Repricing was accomplished pursuant to a First Amendment to First Lien Credit Agreement (the "First Amendment"), dated as of July 13, 2018, by and among Exela Intermediate Holdings LLC, the Company, each "Subsidiary Loan Party" listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto, whereby the Company borrowed $343.4 million of refinancing term loans (the "Repricing Term Loans") to refinance the Company's existing senior secured term loans.

The Repricing Term Loans will bear interest at a rate per annum of, at the Company's option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.00% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.50%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.00%, in each case plus an applicable margin of 6.50% for LIBOR loans and 5.50% for base rate loans. The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans. As of June 30, 2019, the interest rate applicable for the Repricing Term Loans was 8.85%.

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*Incremental Term Loans*

On July 13, 2018, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the "2018 Incremental Term Loans") under the First Amendment to the Credit Agreement. The proceeds of the 2018 Incremental Term Loans were used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment.

On April 16, 2019, the Company successfully borrowed a further $30.0 million pursuant to incremental term loans (the "2019 Incremental Term Loans", and, together with the 2018 Incremental Terms Loans, the "Incremental Term Loans") under the Second Amendment to the Credit Agreement. The proceeds of the 2019 Incremental Term Loans were used to replace the cash spent for acquisitions, pay related fees, expenses and related borrowings for general corporate purposes.

The Incremental Term Loans bear interest at a rate per annum that is the same as the Repricing Term Loans. The Incremental Term Loans will mature on July 12, 2023, the same maturity date as the Repricing Term Loans.

The Company may voluntarily repay the Repricing Term Loans and the Incremental Term Loans (collectively, the "Term Loans") at any time, without prepayment premium or penalty, except in connection with a repricing event as described in the following sentence, subject to customary "breakage" costs with respect to LIBOR rate loans. Any refinancing of the Term Loans through the issuance of certain debt or any repricing amendment, in either case, that constitutes a "repricing event" applicable to the Term Loans resulting in a lower yield occurring at any time during the first six months after July 13, 2018, will be accompanied by a 1.00% prepayment premium or fee, as applicable.

Other than as described above, the terms, conditions and covenants applicable to the Incremental Term Loans are consistent with the terms, conditions and covenants that were applicable to the Repricing Term Loans under the Credit Agreement and which are described in the registrant's Current Reports on Form 8-K filed with the Securities and Exchange Commission on July 18, 2017 and July 17, 2018.

*Letters of Credit*

As of June 30, 2019 and December 31, 2018, we had outstanding irrevocable letters of credit totaling approximately $21.0 million and $20.6 million, respectively, under the revolving credit facility.

**Potential Future Transactions**

We may, from time to time, explore and evaluate possible strategic transactions, which may include joint ventures, as well as business acquisitions or the acquisition or disposition of assets. In order to pursue certain of these opportunities, additional funds will likely be required. There can be no assurance that we will enter into additional strategic transactions or alliances, nor do we know if we will be able to obtain the necessary financing for transactions that require additional funds on favorable terms, if at all.

**Off Balance Sheet Arrangements**

At June 30, 2019 we had no material off balance sheet arrangements, except letters of credit described above under Liquidity and Capital Resources. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements.

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

**Interest Rate Risk**

At June 30, 2019, we had $1,331.9 million of debt outstanding, with a weighted average interest rate of 9.57%. Interest is calculated under the terms of our credit agreement based on the greatest of certain specified base rates plus an applicable margin that varies based on certain factors. Assuming no change in the amount outstanding, the impact on

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interest expense of a 1% increase or decrease in the assumed weighted average interest rate would be approximately $13.3 million per year. In order to mitigate interest rate fluctuations with respect to term loan borrowings under the Credit Agreement, in November 2017, we entered into a three year one-month LIBOR interest rate swap contract with a notional amount of $347.8 million, which at the time was the remaining principal balance of the term loan. The swap contract swaps out the floating rate interest risk related to the LIBOR with a fixed interest rate of 1.9275% effective January 12, 2018.

The interest rate swap, which is used to manage our exposure to interest rate movements and other identified risks, was not designated as a hedge. As such, changes in the fair value of the derivative are recorded directly to other income as an expense of $4.4 million and income of $4.7 million for the six months ended June 30, 2019 and 2018, respectively.

**Foreign Currency Risk**

We are exposed to foreign currency risks that arise from normal business operations. These risks include transaction gains and losses associated with intercompany loans with foreign subsidiaries and transactions denominated in currencies other than a location's functional currency. Contracts are denominated in currencies of major industrial countries.

**Market Risk**

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. We do not use derivatives for trading purposes, to generate income or to engage in speculative activity.

**Item 4. Internal Controls and Procedures**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that material information required to be disclosed in our reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been detected.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective due to material weaknesses in internal control over financial reporting described in our 10-K as of December 31, 2018.

Notwithstanding such material weaknesses in internal control over financial reporting, our management, including our CEO and CFO, has concluded that our consolidated financial statements present fairly, in all material respects, our financial position, results of our operations and our cash flows for the periods presented in this Quarterly Report, in conformity with U.S. generally accepted accounting principles.

**Remediation**

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As previously described in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, we began implementing a remediation plan to address the material weaknesses mentioned above. The weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter-ended June 30, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

*Appraisal Demand*

On September 21, 2017, former stockholders of SourceHOV Holdings, Inc. ("SourceHOV"), who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the acquisition of SourceHOV and Novitex Holdings, Inc., by Quinpario in July 2017 ("Novitex Business Combination"), which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their SourceHOV shares at the time of the Novitex Business Combination.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). The Court conducted a trial in June 2019 and has scheduled post-trial argument for October 2019. The parties and their experts have offered competing valuations of the SourceHOV shares as of the date of the Novitex Business Combination. The Court may determine a fair value that is above or below the values indicated by the parties and their experts. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate what the Court will determine the fair value of SourceHOV common stock to be as of the date of the Novitex Business Combination.

As a result of the Appraisal Action, 4,570,734 shares of our Common Stock issued to Ex-Sigma 2 LLC, our principal stockholder, will be forfeited at such time as the PIPE Financing (as defined in and pursuant to the terms of the Consent, Waiver and Amendment, dated June 15, 2017) is repaid. The Company continues to vigorously defend the Appraisal Action.

*Other*

We are, from time to time, involved in other legal proceedings, inquiries, claims and disputes, which arise in the ordinary course of business. Although our management cannot predict the outcomes of these matters, our management believes these actions will not have a material, adverse effect on our financial position, results of operations or cash flows.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the risk factors described in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, which could materially affect our business, financial condition and/or operating results. The risks described in these Risk Factors are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

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**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company may, from time to time, purchase up to 5,000,000 shares of its Common Stock. Share repurchases may be executed through various means, including, without limitation, open market transactions, privately negotiated transactions or otherwise. The decision as to whether to purchase any shares and the timing of purchases, if any, will be based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program does not obligate the Company to purchase any shares and expires 24 months after authorized. The Share Buyback Program may be terminated or amended by the Company's board of directors in its discretion at any time. We purchased an additional 2,499,885 shares during 2018 at an average share price of $4.71. Share repurchases for the three and six months ended June 30, 2019 were 237,962 at an average share price of $2.74. As of June 30, 2019, 2,787,147 shares had been repurchased under the Share Buyback Program. The Company records treasury stock using the cost method.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

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**Item 6. Exhibits.**

| Exhibit No. | Description |
|---|---|
| 2.1 | Business Combination Agreement, dated as of February 21, 2017, by and among Quinpario Acquisition Corp. 2, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., Novitex Holdings, Inc., SourceHOV Holdings, Inc., Novitex Parent, L.P, HOVS LLC and HandsOn Fund 4 I, LLC (3) |
| 3.1 | Restated Certificate of Incorporation, dated July 12, 2017 (4) |
| 3.2 | Amended and Restated Bylaws, dated July 12, 2017 (4) |
| 4.1 | Specimen Common Stock Certificate (1) |
| 4.2 | Specimen Warrant Certificate (1) |
| 4.3 | Form of Warrant Agreement between Continental Stock Transfer & Trust Company and the Registrant (1) |
| 4.4 | Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc. as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee (4) |
| 4.5 | First Supplemental Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc., as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee (4) |
| 10.1 | First Amendment to First Lien Credit Agreement, dated as of July 13, 2018, by and among Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each Subsidiary Loan Party listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto. (2) |
| 10.2 | Exela Technologies Inc. 2018 Stock Incentive Plan.(6) |
| 10.3 | Form of Option Grant Notice and Agreement under the Exela Technologies Inc. 2018 Stock Incentive Plan. (6) |
| 10.4 | Form of Restricted Stock Unit Grant and Agreement under the Exela Technologies Inc. 2018 Stock Incentive Plan. (6) |
| 10.5 | Second Amendment to First Lien Credit Agreement, dated as of April, 17, 2019, by and among Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each Subsidiary Loan Party listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto. (5) |
| 31.1 | Certification of the Principal Executive Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 31.2 | Certification of the Principal Financial and Accounting Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 32.1 | Certification of the Principal Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 |
| 32.2 | Certification of the Principal Financial and Accounting Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

(1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-198988).
(2) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 13, 2018.
(3) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed on February 22, 2017.
(4) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 18, 2017.
(5) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on April 17, 2019.
(6) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed on May 10, 2019.

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**SIGNATURES**

Pursuant to the requirements of the Section 13 or 15 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 8th day of August, 2019.

EXELA TECHNOLOGIES, INC.
By:/s/ Ronald Cogburn
Ronald Cogburn
Chief Executive Officer (Principal Executive Officer)
By:/s/ James G. Reynolds
James G. Reynolds
Chief Financial Officer (Principal Financial and Accounting Officer)

# Exhibit 13

S&P Global
Market Intelligence

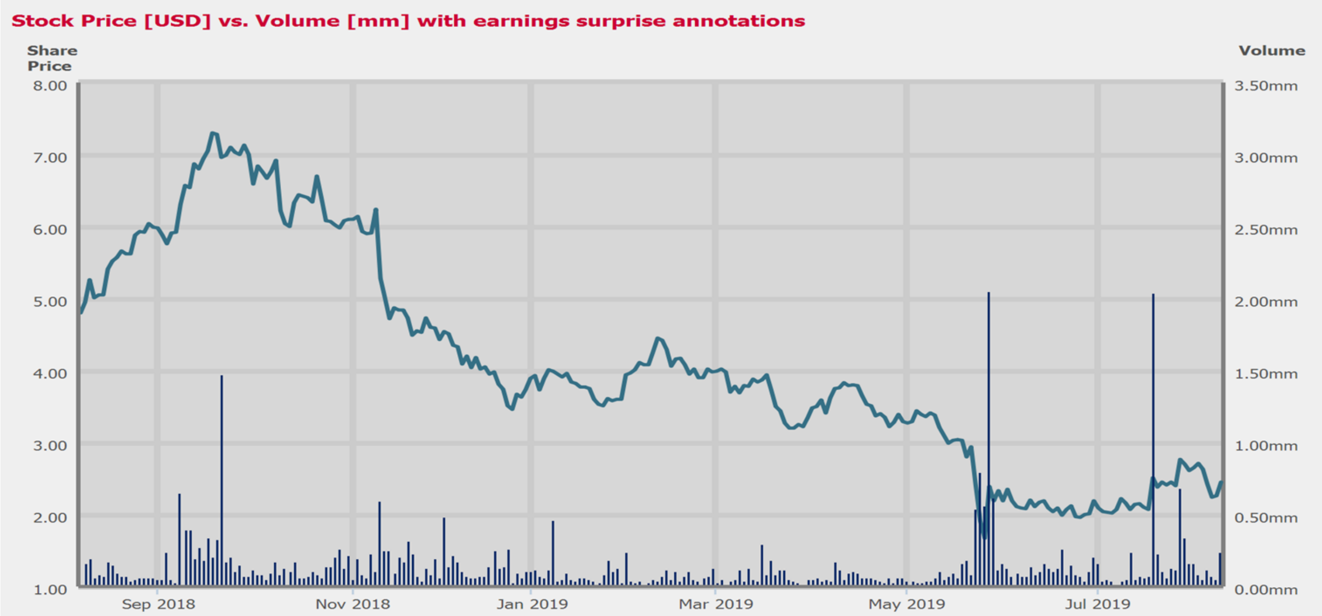
# Exela Technologies, Inc. NasdaqCM:XELA FQ2 2019 Earnings Call Transcripts

## Thursday, August 08, 2019 9:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ2 2019- | | | -FQ3 2019- | -FY 2019- | -FY 2020- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS (GAAP)** | (0.05) | (0.23) | NM | (0.01) | (0.22) | 0.18 |
| **Revenue (mm)** | 404.41 | 390.16 | ▼(3.52 %) | 415.95 | 1659.30 | 1763.21 |

Currency: USD
Consensus as of May-29-2019 11:00 PM GMT




- EPS (GAAP) -

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ3 2018** | (0.02) | (0.20) | NM |
| **FQ4 2018** | (0.12) | (0.56) | NM |
| **FQ1 2019** | (0.06) | (0.21) | NM |
| **FQ2 2019** | (0.05) | (0.23) | NM |

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# Call Participants

**EXECUTIVES**

**James F. Mathias**
*Vice President of Investor Relations*

**James G. Reynolds**
*Chief Financial Officer*

**Ronald Clark Cogburn**
*Chief Executive Officer*

**ANALYSTS**

**Dan Dolev**
*Nomura Securities Co. Ltd., Research Division*

**Steven Paul Halper**
*Cantor Fitzgerald & Co., Research Division*

# Presentation

**Operator**

Good afternoon, and welcome to the Exela Technologies Second Quarter 2019 Financial Results Conference Call. [Operator Instructions] Please note, this event is being recorded.

I would like to turn the conference over now to Mr. Jim Mathias. Please go ahead, sir.

**James F. Mathias**
*Vice President of Investor Relations*

Thank you, Nancy. Good afternoon, everyone, and welcome to the Exela Technologies' Second Quarter 2019 Conference Call.

I'm joined here today by Ron Cogburn, Exela's Chief Executive Officer; and Jim Reynolds, our Chief Financial Officer. Following prepared remarks made by Ron and Jim, we will take your questions.

Today's conference call is being broadcast live via webcast, which is available on the Investor Relations page of Exela's website, exelatech.com. A replay of this call will be available until August 15, 2019. Information to access the replay is listed in today's press release, which is also available on the Investor Relations page of Exela's website.

During today's call, Exela will make certain statements regarding future events and financial performance that may be characterized as forward-looking under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to known and unknown risks and uncertainties and are based on current expectations and assumptions. We undertake no obligation to update any statements to reflect the events that occur after this call, and actual results could differ materially from any forward-looking statements.

For more information, please refer to the risk factors discussed in Exela's most recently filed periodic report on Form 10-Q, along with the associated press release and the company's other filings with the SEC. Copies are available from the SEC or the Investor Relations page of Exela's website.

During today's call, we will refer to certain non-GAAP financial measures. We believe these non-GAAP measures provide additional information on how management views the operating performance of our business. Reconciliations between GAAP and non-GAAP results we discuss on today's call can be found on the Investor Relations page of our website.

As a reminder, financial results discussed on today's call reflect pro forma combined company results for the business combination of SourceHOV Holdings and Novitex Holdings, which closed on July 12, 2017. Please note, the presentation that accompanies this conference call and investor fact sheet are also accessible on the Investor Relations page of our website.

I would now like to turn the call over to our CEO, Ron Cogburn. Ron?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Thanks, Jim. Good afternoon, and thanks everyone for joining us today. Let's start with Slide 4 and discuss our Q2 2019 financial summary. We formed Exela just 2 years ago, and since that time, we have worked on executing a significant and exciting transformation of our combined business. This journey includes a number of notable achievements and positive data points, the results of which I will discuss in conjunction with my review of our Q2 2019 results. Enabled by Exela's proprietary technology, our formula for transformation starts with human capital and then the rationalization of both facilities and duplicate vendors. The final piece of our transformation is our ability to use our proprietary technology to transition from third-party software to our own internally developed platforms.

Our revenue, excluding the postage and postage handling and low-margin contract exit, grew by 4% in the first half of 2019. This underlines the stability in our revenue, which, combined with a robust pipeline provides a healthy base to build upon. While we are excited about the new wins this year, some of this revenue, or ACV, will be delivered next year.

Based on the items I've just mentioned and considering the unpredictable nature of our postage revenue, we are updating our 2019 revenue guidance to $1.59 billion to $1.61 billion and 2019 adjusted EBITDA guidance to $290 million to $300 million. We have strong visibility under this revenue, which, in turn, will help us to prioritize our operations and focus on liquidity and cash generation.

Reflecting on our progress today, we have experienced many successes on our ongoing journey. I believe we are all well positioned as we work to transform and continue to grow as a global leader in the business process automation.

Looking specifically at the second quarter results, revenue for Q2 2019 was $390.2 million and $394.6 million on a constant currency basis. Adjusted EBITDA was $69.4 million and $69.7 million on a constant currency basis. Our adjusted EBITDA margin increased by 70 bps on a year-over-year basis to 17.8%. Our total liquidity improved markedly on a sequential basis by $39.4 million to reach $97.5 million at the end of the second quarter.

This quarter, we wanted to show the impact of a couple of factors creating a drag on the growth rates of the consolidated business. The 2 items we are highlighting are pass-through revenue related to postage and postage handling and our continued exit from low-margin contracts. Revenue, excluding postage and postage handling and the previously announced contract exit, was $650 million in the first half of 2019, resulting in a 4% year-over-year growth rate. This compares to the consolidated results for the second quarter of 2019 that show a decline of 4.9% on an as-reported basis.

As we look at our business, excluding these 2 items, this is an important part of our story as well as a clear indication that our transformation efforts are working and it'll take another 12 to 18 months to complete. On an adjusted EBITDA margin basis, the story is very positive. Net of postage and the previously announced contract exit, adjusted EBITDA margins were 22%. Now this is the margin level that has been our target since the inception of Exela in July of 2019.

Now let's turn to Slide #5 and talk about our optimization and restructuring charges. The quarter we are discussing -- this quarter, we are discussing our optimization and restructuring, or O&R as we like to refer it, costs in more detail to provide color on our ongoing transformation as we work to drive down the operating cost through automation. In the second quarter, optimization and restructuring expense totaled $18.7 million. We have provided a more detailed breakdown of the O&R charges, which can be broken down further into the following 3 categories split by headcount, vendor and facilities.

Category #1, M&A-related charges, which essentially includes all the initiatives that are attributable to the recently completed acquisition and include shared services consolidation and related activities. $1.1 million worth of O&R cost in Q2 are expected to go away once those initiatives are completed.

Category #2, process transformation. These expenses remain the single largest bucket, which represents the continuous reduction in COGS related to headcount rationalization through the deployment of our in-house proprietary technology. As referenced, in deploying our technology and upgrading our delivery capabilities, we transform the process through which revenue is delivered. In other words, we make it more efficient. As a result, once this change is implemented at the industry and offering level, this is replicated for all of our customers in that industry and offering, which enables us to reduce headcount. In addition, with the lower headcount, we can execute our planned facility consolidations and related vendor spend reductions. In total, $17.6 million worth of process transformation cost in Q2 are expected to be shed through the initiatives and should be realized as cash flow through the P&L once the initiatives are completed.

Let's look at category 3, customer transformation. Now this is the smallest category, which represents any specific customer transformation. These are more intermittent in nature and will appear in particular quarters once the process transformation is complete and specific customers need a transition period for

the work to be moved from one location to the other. We have also shown the split of the O&R by way of COGS and SG&A. $14.2 million of O&R is attributable to COGS and $4.5 million related to SG&A to help illustrate the pro forma impact on our gross profit dollars and operating income once all these initiatives are realized.

Now let's turn to Slide #6, our business transformation. Many of you have asked in our prior interactions how much transformation has been accomplished today and how much is left to achieve. This slide is an extension of the previous slide and provides the snapshot into the progress that we have made as well as quantifying what maybe the pro forma impact of the savings on the gross profit dollars. The slide breaks down our business into 3 gross margin buckets and is also correlated to the transformation life cycle. We have done this to show the level of transformation and impact on the gross margins of each.

From the left, the first 3 bars represent the business broken down by their respective gross margin profiles as they stand today. The rightmost bar, which represents where the consolidated business stands today, is at 28% gross margin net of postage and postage handling revenue. Once the $14.2 million of O&R charges have been realized, the gross margin of 28% is expected to climb up another 450 bps or so to reach levels of about 32%.

Next, let's jump to the left side of the slide starting with the first column. 45% to 50% of our business is already around 35% gross margin levels, which is 8 points higher than the consolidated gross margin. This represents the process transformation and operation improvements that we have made and been executing in the last decade. The second column represents 35% to 40% of the business. Now this business is at the lowest gross margin of the 3 and is still approximately 15% with the transformation span just over the last couple of years. Finally, the third bar from the left represents 15% to 20% of the revenue at approximately 30% gross margins with a span of at -- for over the last 5 years. Now our focus is on this second bar and replicating our successful strategy to implement technology and process transformations, which bring up the gross margins to that same 35% level for the -- as similar in the longer-tenured businesses. This represents a tremendous opportunity to expand the gross profit dollars. However, I want to highlight the fact that these are heavy lifting improvements that will fundamentally transform COGS and they require an investment and time.

In summary, over 60% to 70% of our revenue is already at a 30% gross margin or higher. The company is focused on improving the gross profit profile for the remaining business as we deploy our technology and transform that business to capture additional profits.

Now let's turn to Slide #7. Headcount is our largest cost component of our business. And the technology we used to provide automation to the business processes enables Exela to work towards a lower total variable cost. Now this action, along with the growth of the business help drives -- helps us drive growth in our revenue per FTE. Another part of our strategy is to optimize headcount geographically. We are right shoring and as expected, we are increasing headcount in Asia by simultaneously working to lower headcount needs in North America and in Europe.

In Asia, we are seeing the majority of headcount increase within delivery and operations. The remainder of the growth in headcount is through the expansion of technology teams in both Asia and near-shore European countries.

Now let's turn to Slide #8 and talk about our top 200 and customer segmentation. Let's take a moment and look at the positive effect our strategy is having on our customer segmentation. Now as you will recall, in 2018, our focus of the top 200 customers yielded an impressive growth rate of 12% on an organic basis year-over-year. The remaining customers in the all-others category declined by 13%. Now halfway through 2019, Exela has transformed the statistic of the all-other basket to one of a positive growth year-to-date on a year-over-year basis. Now that's quite an achievement for just the first 6 months. We accomplished this turnaround through applying the same strategies that we utilized on the top 200 to grow these customers.

We believe our focus on Digital Now resonates with the customers and is having a positive impact. We're very encouraged by the investments and the focus on the top 200 customers and expanding it to the rest of the business. An example of that success is a recent win with one of the largest banks in the U.S.,

that has validated our strategy once again. Exela was asked to help this bank accelerate their digital transformation beginning in the mail room, with our deployment of Digital Now and our DMR solution.

Now with access to the data, we could optimize the flow of information with our workflow automation, our payment processing, our AI and our workflow management. This bank is now taking advantage of more of our 7-layer technology stack creating greater value for them as well as their customers.

Now let's go to Slide #9 and talk about our customer scorecard and revenue. Our strategy to grow within our existing customers continues to gain strength. In some cases, like the new wins I've mentioned that are ramping this year, customers have made the decision to outsource processes that had never been considered to be outsourced before in their organization. These avenues of revenue are significant for us. Our diversified revenue base for the first half of 2019 has remained fairly constant with 35% of the revenue with our top 20 customers that have an average tenure now of more than 16 years. The top 100 and 200 customers represent 60% and 72%, respectively.

Our growth in Europe continues with the revenue there representing 18% now and with Americas representing 82% on the first half of 2019 basis. Our strategy to increase our wallet share with our top customers continues to have success with 9 customers now over $12.5 million for the first half of 2019. And my favorite statistic and the seedbed of growth for the Exela is our customers with more than $1 million in annual revenue. Through the first half of 2019, that count has now risen to 264 customers with over $0.5 million in revenue today. So the trend is very clear. This increase demonstrates the effectiveness of our efforts to grow within our existing customers and to gain wallet share.

Now our strategic deal teams are focused on identifying opportunities to expand within our top customers, while partnering with them on their digital journeys. We continue to increase the numbers of statements of work, and master service agreements with our existing customers. Our conversation with our customer center on our platforms and solutions that address their mission-critical challenges, such as revenue cycle management, digital mail room, HR requirements, workflow automation and information management, just to mention a few.

You've heard me say and we do have a great customer list with over 60% of the Fortune 100, and our ability to grow within these customer has -- customers has measurable and positive results.

In closing and before I hand the call over to Jim Reynolds for a discussion of the financials, halfway through 2019, Exela is effectively continuing its rollout of our Digital Now suite of solutions. After 2 full years and now in our third year of operation, Exela will continue to transform our business and execute on our growth and savings plans on a global basis.

We're excited about 2019, which has gotten off to a solid start and we're focused on pursuing additional opportunities in achieving greater market penetration through automation. We're looking forward to continuing to enable our customers on their digital journeys, and we believe Exela with Digital Now is well positioned for growth going forward.

And now, I would like to hand the call over to Jim Reynolds, who will discuss our financial results in greater detail. Jim?

**James G. Reynolds**
*Chief Financial Officer*

Thanks, Ron. Moving to Slide 11 and looking at our P&L. Second quarter revenue totaled $390.2 million. On a constant currency basis, revenue was $394.6 million.

Looking at our segments. Revenue for ITPS segment was $309.2 million, a decrease of 6.3% year-over-year from $330.1 million. This decrease was driven by the impact of the low-margin contract exit we discussed in the third quarter of 2018, offset by growth from acquisitions and existing customers.

Our Healthcare Solutions segment grew 12.6% on a year-over-year basis, totaling $63.4 million, up from $56.3 million in the second quarter of 2018. The quarterly results in health care were consistent with our expectations based on our investments in this segment.

Our Legal and Loss Prevention segment, or legal, totaled $17.6 million in the second quarter with a year-over-year decline of 26.4%. Results in legal are event-driven and project-based, which causes our revenue to be lumpy between quarters.

Gross margin for the second quarter improved on a year-over-year basis by 10 bps to 23.6%. The slight margin improvement was due primarily to continued transformation in benefits from ongoing cost-savings initiatives.

SG&A for the quarter totaled $51.6 million, in which 13.2% of revenue compared to 11.4% in the second quarter of 2018. The increase in SG&A was driven by our continued investment in our customer-facing organizations, higher noncash stock compensation and onetime customer exit costs.

Our depreciation and amortization expense was down by approximately $9.2 million on a year-over-year basis due to the fact that in prior years, we had accelerated amortization of trade names that are no longer being used. We expect D&A to continue at this level going forward.

Operating income for the second quarter of 2019 was $12.3 million compared to operating income of $11.9 million in the second quarter of 2018, representing an increase of 3.4%. This was driven by $9.2 million of lower amortization, offset by lower gross profit of $4.3 million and higher SG&A spend of $4.8 million for the comparable period.

Our EBITDA in the second quarter was $36.9 million and was impacted by severance charges of $1.6 million as well as noncash charges of $8.7 million.

Adjusted EBITDA for the quarter totaled $69.4 million, a decrease of 1% on a year-over-year basis. Adjusted EBITDA margins for the second quarter were 17.8%, an improvement of 70 bps from 17.1% in the second quarter of 2018.

On our next slide, Slide 12. I want to discuss in greater detail the differences between EBITDA and adjusted EBITDA. The primary variance between the 2 are optimization and restructuring charges. This quarter, we have provided an additional level of detail within optimization and restructuring expenses breaking them down by COGS and SG&A as well as their type, which was discussed earlier.

During the second quarter of 2019, optimization and restructuring expenses totaled $18.7 million compared to $8.9 million in the second quarter of 2018. Of the $18.7 million, $17.6 million related to cost associated with process transformation. The remaining $1.1 million is related to M&A transformation. Customer transformation was less than $50,000 in the second quarter. We expect the level of optimization and restructuring expense related to process transformation to decline towards the back half of 2019 as the automation initiatives continued to get executed and realized into the P&L. We still have a lot of work to do as approximately 35% to 40% of our net revenue and its gross margins at approximately 15%.

To summarize, we have an attractive opportunity to transform this part of the business through the deployment of our technology and automate our labor-intensive processes.

Another large bucket within our adjustments are noncash and other charges. This bucket includes costs associated with cash severance and onetime debt extinguishment cost and customer exit costs.

Turning to our next slide, 13. Exela generated $10.2 million of net cash during the quarter, and we ended the second quarter with a cash balance of $23.4 million, an increase from $13.3 million at the end of the first quarter of 2018. Driving the increase in cash was $32.4 million in cash flows from operations. During the quarter, we did increase our term loan and had net proceeds of $29.5 million, and we used the proceeds to pay down the revolver. We also used $15.5 million during the quarter for investing activities, including CapEx. We made $8.4 million in principal payments on debt, including the mandatory amortization on the term loan.

Moving to Slide 14. Liquidity at the end of the second quarter was $97.5 million and increased $39.4 million sequentially. Our total net debt was $1.446 billion.

During the second quarter, we bought back 237,962 shares. Under our stock purchase plan, since inception, we have now purchased a total of 2,787,147 shares.

Moving to Slide 15. As we discussed earlier, some of our revenue is less predictable in nature and has little to no margin contribution. We are winning new business, but some of this ACV is only scheduled to be delivered next year. In consideration of all these factors, we're updating our 2019 revenue guidance to be between $1.59 billion to $1.61 billion and our 2019 adjusted EBITDA guidance to $290 million to $300 million. This, again, represents the fact that we have higher visibility into the base business and the unpredictable postage and postage handling business has a lower contribution.

Our CapEx is expected to be approximately 2.5% of revenue. The capital allocation policy is to still pay down debt. We ended the second quarter with $97.5 million of liquidity, and our continued focus on savings initiatives is expected to drive incremental cash flows. We expect our net leverage ratio to be approximately 4x, in line with the current levels.
This concludes our formal comments. Operator, with that, please open up the line for questions.

# Question and Answer

**Operator**

[Operator Instructions] And the first question comes from Dan Dolev from Nomura Instinet.

**Dan Dolev**
*Nomura Securities Co. Ltd., Research Division*

So can we talk about the guidance for a second, I think personally, you lowered the guidance, which is realistic and fair. It does still require a ramp in growth in the second half, I think, about 100 basis points of margin growth. Can you maybe talk to us a little bit about the level of confidence that you have that you will achieve that in the second half? And then I have a follow-up.

**James G. Reynolds**
*Chief Financial Officer*

Yes. Thanks for your call, Dan. Our size and our quality and our pipeline has improved and continues to improve. Our business process has driven with higher ramp times and customers are more cautious in the fourth quarter. Based on where we are, we feel it's prudent to guide down for the year. If you look at the incremental results, Q2 was negatively impacted due to some onetime noncash items of about $8.7 million. So when we look forward to the second half of the year, those items will not be remaining and we'll continue to have savings flow through that will help generate incremental GAAP savings.

**Dan Dolev**
*Nomura Securities Co. Ltd., Research Division*

Understood and I appreciate. And then my quick follow-up is on the organic growth. I know I've been asked -- I've asked that before, but can you maybe tell us a little bit the kind of the rate of organic growth in -- especially in ITPS? And then maybe if you can comment on that? It's very interesting to see that ex the pass-through, the growth was better, the 4% in the first half. Maybe if you would be able to give us sort of the trends 1Q to 2Q?

**James G. Reynolds**
*Chief Financial Officer*

Sure. With respect to our ITPS, we reported it being down by about $20 million. A good chunk of that, approximately $12 million related to the lower margin contract that we exited. The other piece of that, there is a chunk that flows through currency that was approximately $4.4 million for the company in total, of which a majority is in the ITPS. And then, we did have acquisitions that helped ITPS and that revenue was about $12 million quarter-over-quarter.

**Dan Dolev**
*Nomura Securities Co. Ltd., Research Division*

You mean year-over-year, you mean?

**James G. Reynolds**
*Chief Financial Officer*

Year-over-year, I'm sorry. Correct.

**Dan Dolev**
*Nomura Securities Co. Ltd., Research Division*

Got it. And then just last thing on that last question that I had on the ex pass-through, the ex postage growth, it was quite nice at 4% for the first half. Any comment on 1Q versus 2Q? Because I don't believe you gave that statistic last quarter.

**James G. Reynolds**

*Chief Financial Officer*

No, we did not. We wanted to discuss it this quarter. We thought it was important that we show what the true margins look like. Obviously, we're being penalized by pass-through of revenue with little or no margin. So our true margins are much higher than they are when we report.

**Operator**

[Operator Instructions] Our next question comes from Joseph Foresi from Cantor Fitzgerald.

**Steven Paul Halper**
*Cantor Fitzgerald & Co., Research Division*

This is Steven coming on for Joe. I just have -- you've talked about the business transformation when you are looking at, was it 15% to 20% of the company -- sorry, 35% to 40% of your revenue trying to expand that gross margin. Can you provide some color on what makes up that part of 35% to 40% of revenue?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Yes. So -- it's Steven, right?

**Steven Paul Halper**
*Cantor Fitzgerald & Co., Research Division*

Yes.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Yes. You're talking about Slide #6?

**Steven Paul Halper**
*Cantor Fitzgerald & Co., Research Division*

Yes.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Yes. And so the way you look at the business, and I think from the beginning of the formation of Exela, we talked about part of our business that was ripe for digital transformation and that's really what we've talked about.

The former Novitex group was really made up of a couple of big buckets. You had mail room, mail room logistics, you had print reprographics. And as we indicate here, those gross margins were lower, and I think we've always stated that. So for us, and we look at what we had done historically for the last 10 years, our gross margins being 35%, we know that over time, we're going to be able to transform this. We're going to be able to put automation where there is no automation. The grouping on the far, I guess, the third bucket that has to do with more of our European footprint that we picked up about 5 years ago. And you can see with the benefit of automation and transformation, we brought those margins up to around 30%. So when we look at this bucket, this 35% to 40% of revenue, there is a great opportunity to be able to transform and lift those margins to the goal of being around 35% like we have for the rest of the business.

**Steven Paul Halper**
*Cantor Fitzgerald & Co., Research Division*

Okay. Sounds good. And I just have one more quick one. So you had stated that some projects in the legal segment has been generating lower revenue. Can you provide some color on those?

**James G. Reynolds**

*Chief Financial Officer*

Yes. If you'd look at 2018, there were a number of large notification projects that we finished up. So we had not as many projects running through legal. We still have a good pipeline. Our business unit is well respected. It's one of the top in the industry. So when there are large cases, we typically get our fair share. So we're confident that, that is a strong business, but the business has shifted over the past year in not as many large settlements.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Ron Cogburn, CEO, for any closing remarks.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Thank you, operator. We look forward to speaking, again, next quarter, but in between now and then, if you have the opportunity to visit one of our innovation centers where you can showcase the technology, the automation and the processes that we work through, please reach out to Jim Mathias, our Head of Investor Relations and let him know because we're in the city or we're on the West Coast or we're in Europe, where we have these centers. So please avail yourselves of that because it really does help put some color on each of the stories. Thank you, and we'll see you next quarter.

**Operator**
The conference is now concluded. Thank you for attending today's presentation. You may now disconnect and enjoy the rest of your day.

# Exhibit 14

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

## FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2019**

**Or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission file number: 001-36788**

# EXELA TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Delaware**<br>(State of or other Jurisdiction Incorporation or Organization) | **47-1347291**<br>(I.R.S. Employer Identification No.) |
| **2701 E. Grauwyler Rd.**<br>**Irving, TX**<br>(Address of Principal Executive Offices) | **75061**<br>(Zip Code) |

Registrant's Telephone Number, Including Area Code: **(844) 935-2832**

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class | Trading Symbol | Name of Each Exchange on Which Registered |
|---|---|---|
| Common Stock, Par Value $0.0001 per share | XELA | The Nasdaq Stock Market LLC |

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large Accelerated Filer ☐ | Accelerated Filer ☒ |
| Non-Accelerated Filer ☐ | Smaller Reporting Company ☒ |
| | Emerging Growth Company ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 11, 2019 the registrant had 150,698,864 shares of Common Stock outstanding.

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**Exela Technologies, Inc.**

**Form 10-Q**

**For the quarterly period ended September 30, 2019**

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**PART I—FINANCIAL INFORMATION**

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Balance Sheets**
**As of September 30, 2019 and December 31, 2018**
*(in thousands of United States dollars except share and per share amounts)*

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 10,312 | $ 25,615 |
| Restricted cash | 4,913 | 18,239 |
| Accounts receivable, net of allowance for doubtful accounts of $7,021 and $4,359, respectively | 260,438 | 270,812 |
| Related party receivables | 42 | — |
| Inventories, net | 16,996 | 16,220 |
| Prepaid expenses and other current assets | 22,695 | 25,015 |
| **Total current assets** | **315,396** | **355,901** |
| Property, plant and equipment, net of accumulated depreciation of $171,913 and $154,060, respectively | 119,469 | 132,986 |
| Operating lease right-of-use assets, net | 93,352 | — |
| Goodwill | 609,458 | 708,258 |
| Intangible assets, net | 374,445 | 407,021 |
| Deferred income tax assets | 15,830 | 16,225 |
| Other noncurrent assets | 13,557 | 19,391 |
| **Total assets** | **$ 1,541,507** | **$ 1,639,782** |
| **Liabilities and Stockholders' Equity (Deficit)** | | |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payables | $ 93,815 | $ 99,853 |
| Related party payables | 274 | 7,735 |
| Income tax payable | — | 1,996 |
| Accrued liabilities | 60,994 | 66,008 |
| Accrued compensation and benefits | 51,819 | 54,583 |
| Accrued interest | 24,602 | 49,071 |
| Customer deposits | 30,161 | 34,235 |
| Deferred revenue | 17,368 | 16,504 |
| Obligation for claim payment | 43,267 | 56,002 |
| Current portion of finance lease liabilities | 15,172 | 17,498 |
| Current portion of operating lease liabilities | 26,604 | — |
| Current portion of long-term debts | 37,237 | 29,237 |
| **Total current liabilities** | **401,313** | **432,722** |
| Long-term debt, net of current maturities | 1,367,583 | 1,306,423 |
| Finance lease liabilities, net of current portion | 24,159 | 26,738 |
| Pension liabilities | 26,667 | 25,269 |
| Deferred income tax liabilities | 12,677 | 11,212 |
| Long-term income tax liabilities | 2,892 | 3,024 |
| Operating lease liabilities, net of current portion | 71,661 | — |
| Other long-term liabilities | 7,866 | 15,400 |
| **Total liabilities** | **1,914,818** | **1,820,788** |
| Commitments and Contingencies (Note 10) | | |
| **Stockholders' equity (deficit)** | | |
| Common stock, par value of $0.0001 per share; 1,600,000,000 shares authorized; 153,486,011 shares issued and 150,698,864 shares outstanding at September 30, 2019 and 152,692,140 shares issued and 150,142,955 shares outstanding at December 31, 2018 | 15 | 15 |
| Preferred stock, par value of $0.0001 per share; 20,000,000 shares authorized; 4,419,233 shares issued and outstanding at September 30, 2019 and 4,569,233 shares issued and outstanding at December 31, 2018 | 1 | 1 |
| Additional paid in capital | 482,018 | 482,018 |
| Less: common stock held in treasury, at cost; 2,787,147 shares at September 30, 2019 and 2,549,185 shares December 31, 2018 | (10,949) | (10,342) |
| Equity-based compensation | 48,411 | 41,731 |
| Accumulated deficit | (876,043) | (678,563) |
| Accumulated other comprehensive loss: | | |
| Foreign currency translation adjustment | (7,786) | (6,565) |
| Unrealized pension actuarial losses, net of tax | (8,978) | (9,301) |
| Total accumulated other comprehensive loss | (16,764) | (15,866) |
| **Total stockholders' deficit** | **(373,311)** | **(181,006)** |
| **Total liabilities and stockholders' deficit** | **$ 1,541,507** | **$ 1,639,782** |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Operations**
**For the Three and Nine Months Ended September 30, 2019 and 2018**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Revenue | $ 372,917 | $ 383,030 | $ 1,166,841 | $ 1,186,579 |
| Cost of revenue (exclusive of depreciation and amortization) | 291,222 | 295,936 | 896,110 | 903,682 |
| Selling, general and administrative expenses | 50,372 | 44,913 | 151,884 | 137,231 |
| Depreciation and amortization | 27,114 | 35,041 | 82,326 | 109,428 |
| Impairment of goodwill and other intangible assets | 99,682 | — | 99,682 | — |
| Related party expense | 1,405 | 759 | 3,454 | 3,267 |
| **Operating income (loss)** | (96,878) | 6,381 | (66,615) | 32,971 |
| **Other expense (income), net:** | | | | |
| Interest expense, net | 39,747 | 38,339 | 117,778 | 114,883 |
| Debt modification and extinguishment costs | — | 1,067 | 1,404 | 1,067 |
| Sundry expense (income), net | (10) | (2,571) | 1,028 | (4,961) |
| Other expense (income), net | 581 | (781) | 4,965 | (4,813) |
| **Net loss before income taxes** | (137,196) | (29,673) | (191,790) | (73,205) |
| Income tax (expense) benefit | 3,769 | 733 | (5,689) | (4,911) |
| **Net loss** | $ (133,427) | $ (28,940) | $ (197,479) | $ (78,116) |
| Cumulative dividends for Series A Preferred Stock | (884) | (914) | (2,712) | (2,742) |
| **Net loss attributable to common stockholders** | $ (134,311) | $ (29,854) | $ (200,191) | $ (80,858) |
| **Loss per share:** | | | | |
| Basic and diluted | $ (0.89) | $ (0.20) | $ (1.33) | $ (0.53) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Comprehensive Loss**
**For the Three and Nine Months Ended September 30, 2019 and 2018**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Net Loss** | $ (133,427) | $ (28,940) | $ (197,479) | $ (78,116) |
| **Other comprehensive income (loss), net of tax** | | | | |
| Foreign currency translation adjustments | (2,325) | (2,492) | (1,221) | (3,639) |
| Unrealized pension actuarial gains (losses), net of tax | 291 | 140 | 323 | 363 |
| **Total other comprehensive loss, net of tax** | $ (135,461) | $ (31,292) | $ (198,377) | $ (81,392) |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statements of Stockholders' Deficit**
**For the Nine Months Ended September 30, 2019 and 2018**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Common Stock | | Preferred Stock | | Treasury Stock | | | | Accumulated Other Comprehensive Loss | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Additional Paid in Capital | Equity-Based Compensation | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | Accumulated Deficit | Total Stockholders' Deficit |
| **Balances at January 1, 2018** | **150,529,151** | **$ 15** | **6,194,233** | **$ 1** | **49,300** | **$ (249)** | **$ 482,018** | **$ 34,085** | **$ (194)** | **$ (11,054)** | **$ (514,628)** | **$ (10,006)** |
| Implementation of ASU 2014-09 (Note 4) | — | — | — | — | — | — | — | — | — | — | (1,418) | (1,418) |
| Net loss January 1, 2018 to March 31, 2018 | — | — | — | — | — | — | — | — | — | — | (23,994) | (23,994) |
| Equity-based compensation | — | — | — | — | — | — | — | 959 | — | — | — | 959 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (268) | — | — | (268) |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | (403) | — | (403) |
| Preferred shares converted to common | 1,986,767 | — | (1,625,000) | — | — | — | — | — | — | — | — | — |
| **Balances at March 31, 2018** | **152,515,918** | **$ 15** | **4,569,233** | **1** | **49,300** | **$ (249)** | **$ 482,018** | **$ 35,044** | **$ (462)** | **$ (11,457)** | **$ (540,040)** | **$ (35,130)** |
| Net loss April 1, 2018 to June 30, 2018 | — | — | — | — | — | — | — | — | — | — | (25,182) | (25,182) |
| Equity-based compensation | — | — | — | — | — | — | — | 1,936 | — | — | — | 1,936 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (879) | — | — | (879) |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | 626 | — | 626 |
| Shares repurchased | (768,693) | — | — | — | 768,693 | (3,479) | — | — | — | — | — | (3,479) |
| **Balances at June 30, 2018** | **151,747,225** | **$ 15** | **4,569,233** | **1** | **817,993** | **$ (3,728)** | **$ 482,018** | **$ 36,980** | **$ (1,341)** | **$ (10,831)** | **$ (565,222)** | **$ (62,108)** |
| Net loss July 1, 2018 to September 30, 2018 | — | — | — | — | — | — | — | — | — | — | **(28,940)** | (28,940) |
| Equity-based compensation | — | — | — | — | — | — | — | 1,365 | — | — | — | 1,365 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (2,492) | — | — | (2,492) |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | 140 | — | 140 |
| Stock options exercised | 126,922 | — | — | — | — | — | — | 256 | — | — | — | 256 |
| Shares repurchased | (225,504) | — | — | — | 225,504 | (1,420) | — | — | — | — | — | (1,420) |
| **Balances at September 30, 2018** | **151,648,643** | **$ 15** | **4,569,233** | **1** | **1,043,497** | **$ (5,148)** | **$ 482,018** | **$ 38,601** | **$ (3,833)** | **$ (10,691)** | **$ (594,162)** | **$ (93,199)** |

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| | Common Stock | | Preferred Stock | | Treasury Stock | | | | Accumulated Other Comprehensive Loss | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | Additional Paid in Capital | Equity-Based Compensation | Foreign Currency Translation Adjustment | Unrealized Pension Actuarial Losses, net of tax | Accumulated Deficit | Total Stockholders' Deficit |
| **Balances at January 1, 2019** | **150,142,955** | **$ 15** | **4,569,233** | **$ 1** | **2,549,185** | **$(10,342)** | **$ 482,018** | **$ 41,731** | **$ (6,565)** | **$ (9,301)** | **$ (678,563)** | **$ (181,006)** |
| Net loss January 1, 2019 to March 31, 2019 | — | — | — | — | — | — | — | — | — | — | (29,907) | (29,907) |
| Equity-based compensation | — | — | — | — | — | — | — | 2,798 | — | — | — | 2,798 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | 3,392 | — | — | 3,392 |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | (224) | — | (224) |
| **Balances at March 31, 2019** | **150,142,955** | **15** | **4,569,233** | **1** | **2,549,185** | **(10,342)** | **482,018** | **44,529** | **(3,173)** | **(9,525)** | **(708,470)** | **(204,947)** |
| Net loss April 1, 2019 to June 30, 2019 | — | — | — | — | — | — | — | — | — | — | (34,146) | (34,146) |
| Equity-based compensation | — | — | — | — | — | — | — | 2,661 | — | — | — | 2,661 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (2,288) | — | — | (2,288) |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | 256 | — | 256 |
| RSUs vested | 102,092 | — | — | — | — | — | — | — | — | — | — | — |
| Shares repurchased | (237,962) | — | — | — | 237,962 | (607) | — | — | — | — | — | (607) |
| **Balances at June 30, 2019** | **150,007,085** | **15** | **4,569,233** | **1** | **2,787,147** | **(10,949)** | **482,018** | **47,190** | **(5,461)** | **(9,269)** | **(742,616)** | **(239,071)** |
| Net loss July 1, 2019 to September 30, 2019 | — | — | — | — | — | — | — | — | — | — | (133,427) | (133,427) |
| Equity-based compensation | — | — | — | — | — | — | — | 1,444 | — | — | — | 1,444 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (2,325) | — | — | (2,325) |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | 291 | — | 291 |
| RSUs vested | 508,390 | — | — | — | — | — | — | — | — | — | — | — |
| Witholding of employee taxes on vested RSUs | — | — | — | — | — | — | — | (223) | — | — | — | (223) |
| Preferred shares converted to common | 183,389 | — | (150,000) | — | — | — | — | — | — | — | — | — |
| **Balances at September 30, 2019** | **150,698,864** | **$ 15** | **4,419,233** | **$ 1** | **2,787,147** | **$(10,949)** | **$ 482,018** | **$ 48,411** | **$ (7,786)** | **$ (8,978)** | **$ (876,043)** | **$ (373,311)** |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Condensed Consolidated Statement of Cash Flows**
**For the Nine Months Ended September 30, 2019 and 2018**
*(in thousands of United States dollars except share and per share amounts)*
(Unaudited)

| | Nine Months Ended September 30, 2019 | Nine Months Ended September 30, 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss | $ (197,479) | $ (78,116) |
| Adjustments to reconcile net loss | | |
| Depreciation and amortization | 82,326 | 109,428 |
| Original issue discount and debt issuance cost amortization | 8,730 | 8,062 |
| Debt modification and extinguishment costs | 1,049 | — |
| Impairment of goodwill and other intangible assets | 99,682 | — |
| Provision for doubtful accounts | 4,402 | 2,470 |
| Deferred income tax provision | 1,632 | (3,689) |
| Share-based compensation expense | 6,903 | 4,516 |
| Foreign currency remeasurement | (173) | (2,040) |
| Loss (gain) on sale of assets | (191) | 1,835 |
| Fair value adjustment for interest rate swap | 4,965 | (5,456) |
| Change in operating assets and liabilities, net of effect from acquisitions | | |
| Accounts receivable | 3,501 | (6,374) |
| Prepaid expenses and other assets | 2,377 | (5,770) |
| Accounts payable and accrued liabilities | (43,861) | (23,457) |
| Related party payables | (7,502) | (3,689) |
| **Net cash used in operating activities** | **(33,639)** | **(2,280)** |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | (10,797) | (14,077) |
| Additions to internally developed software | (5,074) | (3,080) |
| Additions to outsourcing contract costs | (14,304) | (5,427) |
| Cash paid in acquisition, net of cash received | (5,000) | (6,513) |
| Proceeds from sale of assets | 360 | 1,095 |
| **Net cash used in investing activities** | **(34,815)** | **(28,002)** |
| **Cash flows from financing activities** | | |
| Third party debt modification and extinguishment costs | 355 | 1,067 |
| Repurchases of common stock | (3,480) | (4,899) |
| Borrowings from other loans | 1,728 | 3,068 |
| Cash paid for equity issuance costs | — | (7,500) |
| Net borrowings under factoring arrangement | (494) | — |
| Cash paid for withholding taxes on vested RSUs | (223) | — |
| Proceeds from senior secured term loans | 29,850 | 30,000 |
| Cash paid for debt issuance costs | (362) | (1,094) |
| Borrowings from senior secured revolving facility | 130,500 | 30,000 |
| Repayments on senior secured revolving facility | (91,500) | (30,000) |
| Principal payments on finance lease obligations | (13,598) | (12,594) |
| Principal repayments on senior secured term loans and other loans | (12,922) | (9,053) |
| **Net cash provided by (used in) financing activities** | **39,854** | **(1,005)** |
| Effect of exchange rates on cash | (29) | (554) |
| **Net decrease in cash and cash equivalents** | **(28,629)** | **(31,842)** |
| Cash, restricted cash, and cash equivalents | | |
| Beginning of period | 43,854 | 81,489 |
| End of period | $ 15,225 | $ 49,647 |
| **Supplemental cash flow data:** | | |
| Income tax payments, net of refunds received | $ 6,981 | $ 5,296 |
| Interest paid | 131,773 | 136,396 |
| **Noncash investing and financing activities:** | | |
| Assets acquired through right-of-use arrangements | 9,352 | 9,318 |
| Leasehold improvements funded by lessor | — | 1,565 |
| Accrued capital expenditures | 1,083 | 1,994 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Notes to the Condensed Consolidated Financial Statements**
*(in thousands of United States dollars except share and per share amounts or unless otherwise noted)*
(Unaudited)

1. General

These condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements as of and for the year ended December 31, 2018 included in the Exela Technologies, Inc. (the "Company," "Exela," "we," "our" or "us") annual report on Form 10-K for such period (the “2018 Form 10-K”).

The accompanying condensed consolidated financial statements have been prepared using accounting principles generally accepted in the United States of America ("GAAP") and with the instructions to Form 10-Q and Rule 10-01 of Securities and Exchange Commission ("SEC") Regulation S-X as they apply to interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. These accounting principles require us to use estimates and assumptions that impact the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results may differ from our estimates.

The condensed consolidated financial statements are unaudited, but in our opinion include all adjustments (consisting of normal recurring adjustments) necessary for a fair statement of the results for the interim period. The interim financial results are not necessarily indicative of results that may be expected for any other interim period or the fiscal year.

**Net Loss per Share**

Earnings per share ("EPS") is computed by dividing net loss available to holders of the Company's common stock, par value $0.0001 per share (“Common Stock”) by the weighted average number of shares of Common Stock outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock, using the more dilutive of the two-class method or if-converted method in periods of earnings. The two-class method is an earnings allocation method that determines earnings per share for Common Stock and participating securities. As the Company experienced net losses for the periods presented, the impact of the Company’s Series A Convertible Preferred Stock (“Series A Preferred Stock”) was calculated based on the if-converted method. Diluted EPS excludes all dilutive potential of shares of Common Stock if their effect is anti-dilutive.

For the nine months ended September 30, 2019 outstanding shares of the Series A Preferred Stock, if converted would have resulted in an additional 5,402,954 shares of Common Stock outstanding, but were not included in the computation of diluted loss per share as their effects were anti-dilutive.

The Company was originally incorporated July 12, 2017 as a special purpose acquisition company under the name Quinpario Acquisition Corp 2 (“Quinpario”). The Company has not included the effect of 35,000,000 warrants sold in the Quinpario Initial Public Offering (“IPO”) in the calculation of net income (loss) per share. Warrants are considered anti-dilutive and excluded when the exercise price exceeds the average market value of the Company’s Common Stock price during the applicable period.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net loss attributable to common stockholders (A) | $ (134,311) | $ (29,854) | $ (200,191) | $ (80,858) |
| Weighted average common shares outstanding - basic and diluted (B) | 150,207,483 | 151,663,670 | 150,140,577 | 152,010,290 |
| **Loss Per Share:** | | | | |
| Basic and diluted (A/B) | $ (0.89) | $ (0.20) | $ (1.33) | $ (0.53) |

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**2. New Accounting Pronouncements**

**Recently Adopted Accounting Pronouncements**

Effective January 1, 2019, the Company adopted Accounting Standards Update ("ASU") no. 2016-02, *Leases (ASC 842).* This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The Company adopted this guidance effective January 1, 2019, under the modified retrospective transition method provided by ASU 2018-11 with the following practical expedients below:

- Not to record the leases with an initial term of 12 months or less on the balance sheet; and
- Not to reassess the (1) definition of a lease, (2) lease classification, and (3) initial direct costs for existing leases during transition.

The adoption had a material impact on the Company's unaudited consolidated balance sheets, but did not have a material impact on the Company's unaudited consolidated income statements and unaudited consolidated statements of cash flows. The most significant impact was the recognition of right-of-use assets and lease liabilities for operating leases, while the Company's accounting for finance leases remained substantially unchanged. See Note 5 for relevant disclosures.

Effective January 1, 2019, the Company adopted ASU no. 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception.* Part I of this ASU addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this ASU addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the three and nine months ended September 30, 2019.
Effective January 1, 2019, the Company adopted ASU no. 2017-12, *Derivatives and Hedging (Topic 815); Targeted Improvements to Accounting for Hedging Activities.* The amendments in this ASU better align the risk management activities and financial reporting for these hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the three and nine months ended September 30, 2019.
Effective January 1, 2019, the Company adopted ASU no. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendments in this ASU address a narrow-scope financial reporting issue related to the tax effects that may become "stranded" in accumulated other comprehensive income ("AOCI") as a result of the Tax Cuts and Jobs Act ("TCJA"). An entity may elect to reclassify the income tax effects of the TCJA on items within AOCI to retained earnings. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the three and nine months ended September 30, 2019.
Effective January 1, 2019, the Company adopted ASU no. 2018-07, *Compensation—Stock Compensation (Topic 718):* Improvements to Nonemployee Share-Based Payment Accounting to amend the accounting for share-based payment awards issued to nonemployees. Under the revised guidance, the accounting for awards issued to nonemployees will be

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similar to the model for employee awards, except the ASU allows an entity to elect on an award-by-award basis to use the contractual term as the expected term assumption in the option pricing model, and the cost of the grant is recognized in the same period(s) and in the same manner as if the grantor had paid cash. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the three and nine months ended September 30, 2019.

**Recently Issued Accounting Pronouncements**

In June 2016, the FASB issued ASU no. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* to replace the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The standard will be effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2018, the FASB issued ASU no. 2018-13, *Fair Value Measurement (Topic 82*0); which changes the fair value measurement disclosure requirements of ASC 820. The amendments in this ASU are the result of a broader disclosure project called FASB Concepts Statement, Conceptual Framework for Financial Reporting. The FASB used the guidance in the Concepts Statement to improve the effectiveness of ASC 820's disclosure requirements. The objective of the disclosure requirements in this subtopic is to provide users of financial statements with information about assets and liabilities measured at fair value in the statement of financial position or disclosed in the notes to financial statements. The ASU includes but is not limited to the valuation techniques and inputs that a reporting entity uses to arrive at its measures of fair value, including judgments and assumptions that the entity makes, the uncertainty in the fair value measurements as of the reporting date, and how changes in fair value measurements affect an entity's performance and cash flows. The ASU is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted for any eliminated or modified disclosures upon issuance of this ASU. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2018, the FASB issued ASU no. 2018-15, *Intangibles, Goodwill, and Other - Internal Use Software (Subtopic 350-40): Customer's accounting for implementation costs incurred in a Cloud Computing Arrangement that is a service contract.* The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments also require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, which includes reasonably certain renewals. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

**3. Business Combinations**

**Asterion**

On April 10, 2018, Exela completed the acquisition of Asterion International Group ("Asterion," the "Asterion Business Combination"), a well-established provider of technology driven business process outsourcing, document management

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and business process automation across Europe. The purchase price was approximately $19.5 million. The acquisition comes with minimal customer overlap and is strategic to expanding Exela's European business.
The acquired assets and assumed liabilities of Asterion were recorded at their estimated fair values. The following table summarizes the consideration paid for Asterion and the fair value of the assets acquired and liabilities assumed at the acquisition date on April 10, 2018:

| | | |
|---|---|---|
| **Assets Acquired:** | | |
| Cash and cash equivalents | $ | 5,595 |
| Accounts receivable | | 25,740 |
| Other current assets | | 2,282 |
| Inventories, net | | 1,137 |
| Property, plant, and equipment, net | | 4,747 |
| Deferred income tax assets | | 6,316 |
| Other noncurrent assets | | 522 |
| Intangible assets, net | | 3,525 |
| Goodwill | | 1,493 |
| Total identifiable assets acquired | $ | 51,357 |
| **Liabilities Assumed:** | | |
| Accounts payable | $ | (5,596) |
| Income tax payable | | (5) |
| Accrued liabilities | | (6,593) |
| Accrued compensation and benefits | | (7,079) |
| Deferred revenue | | (880) |
| Current portion of long term debt | | (994) |
| Customer deposits | | (462) |
| Pension liabilities | | (7,135) |
| Other long-term liabilities | | (1,324) |
| Deferred income tax liabilities | | (1,171) |
| Capital lease obligations, net of current maturities | | (650) |
| Total liabilities assumed | $ | (31,889) |
| Total Consideration | $ | 19,468 |

The majority of identifiable intangible assets consisted of customer relationships. Customer relationships were valued using the Income Approach, specifically the Multi-Period Excess Earnings method. This intangible acquired represents a Level 3 measurement as it is based on unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset at fair value.

| | Weighted Average Useful Life (in years) | Fair Value |
|---|---|---|
| Customer Relationships | 9.5 | $ 3,516 |

Through the acquisition of Asterion, the Company expects to leverage brand awareness, strengthen margins, and expand the existing Asterion sales channels. These factors, among others, contributed to a purchase price in excess of the estimated fair value of Asterion's identifiable net assets assumed, and as a result, the Company has recorded goodwill in connection with this acquisition. For the three and nine months ended September 30, 2019 the Company recognized $17.0 million and $56.8 million in revenue related to Asterion in the Consolidated Statement of Operations.

**4. Significant Accounting Policies**

The information presented below supplements the Significant Accounting Policies information presented in our 2018 Form 10-K, including Revenue Recognition for the adoption of ASC 606 (ASU 2014-09: Revenue from Contracts with Customers), which became effective January 1, 2018. See our 2018 Form 10-K for a description of our significant accounting policies in effect prior to the adoption of the new accounting standard.

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**Revenue Recognition**

We account for revenue in accordance with ASC 606. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. All of our material sources of revenue are derived from contracts with customers, primarily related to the provision of business and transaction processing services within each of our segments. We do not have any significant extended payment terms, as payment is received shortly after goods are delivered or services are provided.

***Nature of Services***

Our primary performance obligations are to stand ready to provide various forms of business processing services, consisting of a series of distinct services that are substantially the same and have the same pattern of transfer over time, and accordingly are combined into a single performance obligation. Our promise to our customers is typically to perform an unknown or unspecified quantity of tasks and the consideration received is contingent upon the customers' use (i.e., number of transactions processed, requests fulfilled, etc.); as such, the total transaction price is variable. We allocate the variable fees to the single performance obligation charged to the distinct service period in which we have the contractual right to bill under the contract.

***Disaggregation of Revenues***

The following tables disaggregate revenue from contracts by geographic region and by segment for the three and nine months ended September 30, 2019 and 2018:

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | ITPS | HS | LLPS | ITPS | HS | LLPS |
| United States | $ 229,492 | $ 62,132 | $ 18,806 | $ 248,055 | $ 56,776 | $ 18,941 |
| Europe | 55,836 | — | — | 52,602 | — | — |
| Other | 6,651 | — | — | 6,656 | — | — |
| Total | $ 291,979 | $ 62,132 | $ 18,806 | $ 307,313 | $ 56,776 | $ 18,941 |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | ITPS | HS | LLPS | ITPS | HS | LLPS |
| United States | $ 718,936 | $ 186,915 | $ 54,217 | $ 782,870 | $ 171,722 | $ 65,476 |
| Europe | 186,337 | — | — | 146,242 | — | — |
| Other | 20,436 | — | — | 20,269 | — | — |
| Total | $ 925,709 | $ 186,915 | $ 54,217 | $ 949,381 | $ 171,722 | $ 65,476 |

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***Contract Balances***

The following table presents contract assets and contract liabilities recognized at September 30, 2019 and December 31, 2018:

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Accounts receivable, net | $ 260,438 | $ 270,812 |
| Deferred revenues | 17,782 | 16,940 |
| Costs to obtain and fulfill a contract | 24,212 | 18,624 |
| Customer deposits | 30,161 | 34,235 |

Accounts receivable, net includes $37.6 million and $39.5 million as of September 30, 2019 and December 31, 2018, respectively, representing amounts not billed to customers. We have accrued the unbilled receivables for work performed in accordance with the terms of contracts with customers.

Deferred revenues relate to payments received in advance of performance under a contract. A significant portion of this balance relates to maintenance contracts or other service contracts where we received payments for upfront conversions or implementation activities which do not transfer a service to the customer but rather are used in fulfilling the related performance obligations that transfer over time. The advance consideration received from customers is deferred over the contract term. We recognized revenue of $12.8 million during the nine months ended September 30, 2019 that had been deferred as of December 31, 2018.

Costs incurred to obtain and fulfill contracts are deferred and expensed on a straight-line basis over the estimated benefit period. We recognized $8.4 million of amortization for these costs in the first nine months of 2019 within depreciation and amortization expense. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or transition activities and can be separated into two principal categories: contract commissions and transition/set-up costs. Examples of such capitalized costs include hourly labor and related fringe benefits and travel costs. Applying the practical expedient in ASC 340-40-25-4, we recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period would have been one year or less. These costs are included in Selling, general and administrative expenses. The effect of applying this practical expedient was not material.

Customer deposits consist primarily of amounts received from customers in advance for postage. The majority of the amounts recorded as of December 31, 2018 were used to pay for postage with the corresponding postage revenue being recognized during the nine months ended September 30, 2019.

***Performance Obligations***

At the inception of each contract, we assess the goods and services promised in our contracts and identify each distinct performance obligation. The majority of our contracts have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts. For the majority of our business and transaction processing service contracts, revenues are recognized as services are provided based on an appropriate input or output method, typically based on the related labor or transactional volumes.

Certain of our contracts have multiple performance obligations, including contracts that combine software implementation services with post-implementation customer support. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we estimate our expected costs of satisfying a performance obligation and add an appropriate margin for that distinct good or service. We also use the adjusted market approach whereby we estimate the price that customers in the market would be willing to pay. In assessing whether to

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allocate variable consideration to a specific part of the contract, we consider the nature of the variable payment and whether it relates specifically to its efforts to satisfy a specific part of the contract. Certain of our software implementation performance obligations are satisfied at a point in time, typically when customer acceptance is obtained.

When evaluating the transaction price, we analyze, on a contract-by-contract basis, all applicable variable consideration. The nature of our contracts give rise to variable consideration, including volume discounts, contract penalties, and other similar items that generally decrease the transaction price. We estimate these amounts based on the expected amount to be provided to customers and reduce revenues recognized. We do not anticipate significant changes to our estimates of variable consideration.

We include reimbursements from customers, such as postage costs, in revenue, while the related costs are included in cost of revenue.

***Transaction Price Allocated to the Remaining Performance Obligations***

In accordance with optional exemptions available under ASC 606, we did not disclose the value of unsatisfied performance obligations for (1) contracts with an original expected length of one year or less, and (2) contracts for which variable consideration relates entirely to an unsatisfied performance obligation, which comprise the majority of our contracts. We have certain non-cancellable contracts where we receive a fixed monthly fee in exchange for a series of distinct services that are substantially the same and have the same pattern of transfer over time, with the corresponding remaining performance obligations as of September 30, 2019 in each of the future periods below:

| Estimated Remaining Fixed Consideration for Unsatisfied Performance Obligations | |
|---|---|
| Remainder of 2019 | $ 17,335 |
| 2020 | 52,951 |
| 2021 | 42,443 |
| 2022 | 31,951 |
| 2023 | 27,775 |
| 2024 and thereafter | 54,159 |
| Total | $ 226,614 |

**5. Leases**

The following table summarizes the impact of the changes made to the January 1, 2019 consolidated balance sheet for the adoption of the new accounting standard pertaining to leases. The prior periods have not been restated and have been reported under the accounting standard in effect for those periods.

| | Balance at December 31, 2018 | Impact of Lease Standard | Balance at January 1, 2019 |
|---|---|---|---|
| Total assets | $1,639,782 | $ 102,651 | $1,742,433 |
| Total current liabilities | 432,722 | 25,304 | 458,026 |
| Total long-term liabilities | 1,820,788 | 79,703 | 1,900,491 |

The increase in total assets and total liabilities at September 30, 2019 from December 31, 2018 was primarily due to the impact from the adoption of the new accounting standard pertaining to lease arrangements. See Note 2 for additional information on the impact of the adoption of this standard.

The Company determines if a contract is, or contains, a lease at contract inception. Operating leases are included in operating lease right-of-use ("ROU") assets, current portion of operating lease liabilities and operating lease liabilities, net of current portion in the Company's unaudited consolidated balance sheets. Finance leases are included in property

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and equipment, current portion of finance lease obligations and finance lease obligations, net of current portion in the Company's unaudited consolidated balance sheets.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. In addition, ROU assets include initial direct costs incurred by the lessee as well as any lease payments made at or before the commencement date, and exclude lease incentives. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Leases with a term of one year or less are generally not included in ROU assets and liabilities.

Operating lease ROU assets and operating lease liabilities are recorded on the consolidated balance sheet as follows:

| | September 30, 2019 |
|---|---|
| *Balance sheet location:* | |
| **Operating Lease** | |
| Operating lease right-of-use assets, net | $ 93,352 |
| Current portion of operating lease liabilities | 26,604 |
| Operating lease liabilities, net of current portion | 71,661 |
| **Finance Lease** | |
| Finance lease right-of-use assets, net (included in property, plant and equipment, net) | 28,394 |
| Current portion of finance lease liabilities | 15,172 |
| Finance lease liabilities, net of current portion | 24,159 |

As of September 30, 2019, weighted-average remaining lease term of operating leases and finance leases was 4.89 years and 3.41 years, respectively. The weighted-average discount rate for operating leases and finance leases was 10.39% and 8.84%, respectively.

The interest on financing lease liabilities for the three and nine months ended September 30, 2019 was $0.9 million and $2.5 million, respectively. The amortization expense on finance lease right-of-use assets for the three and nine months ended September 30, 2019 was $3.7 and $10.7 million, respectively.

The following table summarizes maturities of finance and operating lease liabilities based on lease term as of September 30, 2019:

| | Finance Leases | Operating Leases |
|---|---|---|
| Remainder of 2019 | $ 6,554 | $ 8,469 |
| 2020 | 14,931 | 24,803 |
| 2021 | 11,587 | 19,707 |
| 2022 | 5,470 | 15,651 |
| 2023 | 2,847 | 11,721 |
| 2024 and thereafter | 4,120 | 23,244 |
| Total lease payments | 45,509 | 103,595 |
| Less: Imputed interest | 6,178 | 5,380 |
| Present value of lease liabilities | $ 39,331 | $ 98,265 |

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At December 31, 2018, the Company had the following future minimum payments due under non-cancelable leases:

| | Finance Leases | Operating Leases |
|---|---|---|
| 2019 | $ 20,080 | $ 38,057 |
| 2020 | 11,851 | 29,346 |
| 2021 | 9,018 | 22,239 |
| 2022 | 4,169 | 16,782 |
| 2023 | 2,244 | 12,302 |
| 2024 and thereafter | 3,617 | 18,874 |
| Total minimum lease payments | $ 50,979 | $ 137,600 |
| Less: imputed interest | 6,743 | |
| Total net minimum lease payments | 44,236 | |
| Less: Current portion of obligations under finance leases | 17,498 | |
| Long-term portion of obligations under finance leases | $ 26,738 | |

Consolidated rental expense for all operating leases was $83.8 million for the year ended December 31, 2018. Consolidated rental expense for all operating leases was $19.0 million and $56.4 million for the three and nine months ended September 30, 2019, respectively.

The following table summarizes the cash paid and related right-of-use operating finance or operating lease recognized for the nine months ended September 30, 2019.

| | Nine Months Ended September 30, 2019 |
|---|---|
| **Cash paid for amounts included in the measurement of lease liabilities:** | |
| Operating cash flows from operating leases | $ 28,831 |
| Financing cash flows from finance leases | 13,598 |
| **Right-of-use lease assets obtained in the exchange for lease liabilities:** | |
| Operating leases | 3,894 |
| Finance leases | 9,352 |

**6. Intangibles Assets and Goodwill**

**Intangible Assets**

Intangible assets are stated at cost or acquisition-date fair value less accumulated amortization and consists of the following:

| | September 30, 2019 | | |
|---|---|---|---|
| | Gross Carrying Amount (a) | Amortization | Intangible Asset, net |
| Customer relationships | $ 507,901 | $ (226,123) | $ 281,778 |
| Developed technology | 89,053 | (86,966) | 2,087 |
| Trade names (b) | 8,400 | (3,100) | 5,300 |
| Outsource contract costs | 60,514 | (36,303) | 24,212 |
| Internally developed software | 41,971 | (9,956) | 32,015 |
| Trademarks | 23,378 | (23,370) | 8 |
| Non compete agreements | 1,350 | (1,350) | — |
| Assembled workforce | 4,473 | (839) | 3,634 |
| Purchased software | 26,749 | (1,337) | 25,412 |
| Intangibles, net | $ 763,789 | $ (389,344) | $ 374,445 |

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| | December 31, 2018 | | |
|---|---|---|---|
| | Gross Carrying Amount (a) | Amortization | Intangible Asset, net |
| Customer relationships | $ 507,905 | $ (190,666) | $ 317,239 |
| Developed technology | 89,053 | (85,967) | 3,086 |
| Trade names (c) | 9,400 | (3,100) | 6,300 |
| Outsource contract costs | 46,342 | (27,719) | 18,623 |
| Internally developed software | 36,820 | (6,278) | 30,542 |
| Trademarks | 23,379 | (23,370) | 9 |
| Non compete agreements | 1,350 | (1,350) | — |
| Assembled workforce | 4,473 | — | 4,473 |
| Purchased software | 26,749 | — | 26,749 |
| Intangibles, net | $ 745,471 | $ (338,450) | $ 407,021 |

(a) Amounts include intangible assets acquired in business combinations and asset acquisitions.
(b) The carrying amount of trade names for September 30, 2019 is net of accumulated impairment losses of $44.1 million, of which $1.0 million was recognized in the nine months ended September 30, 2019.
(c) The carrying amount of trade names for 2018 is net of accumulated impairment losses of $43.1 million, of which $3.7 million was recognized in 2018.

Goodwill and other indefinite-lived assets are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. We conduct our annual goodwill and indefinite-lived assets impairment tests on October 1st of each year, or more frequently if indicators of impairment exist. The Company utilizes the Income Approach, specifically the Relief-from-Royalty method, to determine the fair value of the indefinite-lived assets. The Company uses a combination of the Guideline Public Company Method of the Market Approach and the Discounted Cash Flow Method of the Income Approach to determine the reporting unit fair value for goodwill impairment.

During the three months ended September 30, 2019, the Company made an evaluation based on factors such as changes in the Company’s growth rate and recent trends in the Company’s market capitalization, and concluded that a triggering event for an interim impairment analysis had occurred in the third quarter of 2019. As part of the assessment, it was determined that the increase in the discount rate applied in the valuation was required to reflect current market dynamics and company-specific risk. This higher discount rate, in conjunction with revised long-term projections, resulted in lower than previously projected long-term future cash flows for the reporting units which reduced the estimated fair value to below carrying value. As a result of the interim impairment assessment, the Company recorded an impairment charge to goodwill and trade names of $98.7 million, including taxes, and $1.0 million, respectively. The impairment charges are included within Impairment of goodwill and other intangible assets in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2019.

**Goodwill**

The Company’s operating segments are significant strategic business units that align its products and services with how it manages its business, approach the markets and interacts with its clients. The Company is organized into three segments: ITPS, HS, and LLPS (See Note 15).

Goodwill by reporting segment consists of the following:

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| | Goodwill | Additions | Reductions | Currency Translation Adjustments | Goodwill (a) |
|---|---|---|---|---|---|
| ITPS | $ 566,215 | $ 5,580 (c) | $ — | $ (220) | $ 571,575 |
| HS | 86,786 | — | — | — | 86,786 |
| LLPS | 94,324 | — | (44,427)(b) | — | 49,897 |
| **Balance as of December 31, 2018** | $ 747,325 | $ 5,580 | $ (44,427) | $ (220) | $ 708,258 |
| ITPS | 571,575 | — | (90,361)(d) | (118) | 481,096 |
| HS | 86,786 | — | — | — | 86,786 |
| LLPS | 49,897 | — | (8,321)(e) | — | 41,576 |
| **Balance as of September 30, 2019** | $ 708,258 | $ — | $ (98,682) | $ (118) | $ 609,458 |

(a) The goodwill amount for all periods presented is net of accumulated impairment losses of $167.9 million.
(b) The reduction in goodwill is due to $44.4 million, including taxes, for impairment recorded in the fourth quarter of 2018.
(c) Addition to goodwill due to the acquisition of Asterion and immaterial acquisitions in the third and fourth quarters of 2018.
(d) The reduction in goodwill is due to $90.4 million, including taxes, for impairment recorded in the third quarter of 2019.
(e) The reduction in goodwill is due to $8.3 million, including taxes, for impairment recorded in the third quarter of 2019.

**7. Long-Term Debt and Credit Facilities**

**Senior Secured Notes**

On July 12, 2017, the Company issued $1.0 billion in aggregate principal amount of 10.0% First Priority Senior Secured Notes due 2023 with an original issue discount (“OID”) of $22.5 million (the “Notes”). The Notes are guaranteed by certain subsidiaries of the Company. The Notes bear interest at a rate of 10.0% per year. The Company pays interest on the Notes on January 15 and July 15 of each year, commencing on January 15, 2018. The Notes will mature on July 15, 2023.

**Senior Credit Facilities**

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the “Credit Agreement”) providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, a (i) $350.0 million senior secured term loan maturing July 12, 2023 with an OID of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022. As of September 30, 2019 and December 31, 2018, the Company had outstanding irrevocable letters of credit totaling approximately $21 million and $20.6 million, respectively, under the senior secured revolving facility.

The Credit Agreement provided for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company’s option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility is 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility is 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity.

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**Term Loan Repricing**

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the "Repricing"). The Repricing was accomplished pursuant to a First Amendment to First Lien Credit Agreement (the "First Amendment"), dated as of July 13, 2018, by and among the Company's subsidiaries Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each "Subsidiary Loan Party" listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto, whereby the Company borrowed $343.4 million of refinancing term loans (the "Repricing Term Loans") to refinance the Company's existing senior secured term loans.

In accordance with ASC 470 -- *Debt -- Modifications and Extinguishments*, as a result of certain lenders that participated in Exela's debt structure prior to the Repricing and Exela's debt structure after the Repricing, it was determined that a portion of the refinancing of Exela's senior secured credit facilities would be accounted for as a debt modification, and the remaining would be accounted for as an extinguishment. The Company incurred $1.0 million in new debt issuance costs related to the refinancing, of which $1.0 million was expensed pursuant to modification accounting. The proportion of debt that was extinguished resulted in a write off of previously recognized debt issue costs of $0.1 million. Additionally, for the new lenders who exceeded the 10% test, less than $0.1 million was recorded as additional debt issue costs. All unamortized costs and discounts will be amortized over the life of the new term loan using the effective interest rate of the term loan.

The Repricing Term Loans will bear interest at a rate per annum of, at the Company's option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.0% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.5%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.0%, in each case plus an applicable margin of 6.5% for LIBOR loans and 5.5% for base rate loans. The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the Credit Agreement. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the prior senior secured term loans.

**2018 Incremental Term Loans**

On July 13, 2018, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the "2018 Incremental Term Loans") under the First Amendment. The proceeds of the 2018 Incremental Term Loans were used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment. The interest rates applicable to the Incremental Term Loans are the same as those for the Repricing Term Loans.

The Company may voluntarily repay the Repricing Term Loans and the 2018 Incremental Term Loans (collectively, the "Term Loans") at any time, without prepayment premium or penalty, except in connection with a repricing event as described in the following sentence, subject to customary "breakage" costs with respect to LIBOR rate loans. Any refinancing of the Term Loans through the issuance of certain debt or any repricing amendment, in either case, that constitutes a "repricing event" applicable to the Term Loans resulting in a lower yield occurring at any time during the first six months after July 13, 2018 will be accompanied by a 1.00% prepayment premium or fee, as applicable.

Other than as described above, the terms, conditions and covenants applicable to the Repricing Term Loans and the 2018 Incremental Term Loans are consistent with the terms, conditions and covenants that were applicable to the existing senior secured term loans under the Credit Agreement. The Repricing and issuance of the 2018 Incremental Term Loans resulted in a partial debt extinguishment, for which Exela recognized $1.1 million in debt extinguishment costs in the third quarter of 2018.

**2019 Incremental Term Loan**
On April 16, 2019, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the "2019 Incremental Term Loans") under the Second Amendment to First Lien Credit Agreement (the "Second

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Amendment"). The proceeds of the 2019 Incremental Term Loans were used to replace the cash spent for acquisitions, pay related fees, expenses and related borrowings and for general corporate purposes.
The 2019 Incremental Term Loans will bear interest at a rate per annum that is the same as the Company's Repricing Term Loans under the senior credit facility. The 2019 Incremental Term Loans will mature on July 12, 2023, the same maturity date as the Term Loans.
The Company may voluntarily repay the 2019 Incremental Term Loans at any time, without prepayment premium or penalty, subject to customary "breakage" costs with respect to LIBOR rate loans.
Other than as described above, the terms, conditions and covenants applicable to the 2019 Incremental Term Loans are consistent with the terms, conditions and covenants that are applicable to the Repricing Term Loans and 2018 Incremental Term Loans under the Credit Agreement and which are described in the registrant's Current Reports on Form 8-K filed with the Securities and Exchange Commission on July 18, 2017 and July 17, 2018. The Repricing and issuance of the 2018 and 2019 Incremental Term Loans resulted in a partial debt extinguishment, for which Exela recognized $1.4 million in debt extinguishment costs in the second quarter of 2019.

**Long-Term Debt Outstanding**

As of September 30, 2019 and December 31, 2018, the following long-term debt instruments were outstanding:

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Other (a) | $ 23,904 | $ 25,321 |
| First lien credit agreement (b) | 364,068 | 335,896 |
| Senior secured notes (c) | 977,848 | 974,443 |
| Revolver | 39,000 | — |
| Total debt | 1,404,820 | 1,335,660 |
| Less: Current portion of long-term debt | (37,237) | (29,237) |
| Long-term debt, net of current maturities | $ 1,367,583 | $ 1,306,423 |

(a) Other debt represents the Company's outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company.
(b) Net of unamortized original issue discount and debt issuance costs of $6.9 million and $20.1 million as of September 30, 2019 and $8.3 million and $24.5 million as of December 31, 2018.
(c) Net of unamortized debt discount and debt issuance costs of $15.8 million and $6.3 million as of September 30, 2019 and $18.2 million and $7.3 million as of December 31, 2018.

**8. Income Taxes**

The Company applies an estimated annual effective tax rate ("ETR") approach for calculating a tax provision for interim periods, as required under GAAP. The Company recorded an income tax benefit of $3.8 million and $0.7 million for the three months ended September 30, 2019 and 2018, respectively. The Company recorded an income tax expense of $5.7 million and $4.9 million for the nine months ended September 30, 2019 and 2018, respectively.
The Company's ETR of (2.7%) and (3.0%) for the three and nine months ended September 30, 2019 differed from the expected U.S. statutory tax rate of 21.0% and was primarily impacted by permanent tax adjustments, state and local current expense, foreign operations, and valuation allowances, including valuation allowances on a portion of the Company's deferred tax assets on U.S. disallowed interest expense carryforward's created by the provisions of The Tax Cuts and Jobs Act ("TCJA").

For the three and nine months ended September 30, 2018, the Company's ETR of 2.5% and (6.7%) differed from the expected U.S. statutory tax rate of 21.0%, and was primarily impacted by permanent tax adjustments, state and local

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current expense, foreign operations, and valuation allowances, including valuation allowances on a portion of the Company's U.S. disallowed interest expense carryforward's created by the provisions of the TCJA.

As of September 30, 2019, there were no material changes to either the nature or the amounts of the uncertain tax positions previously determined for the year ended December 31, 2018. The Company's valuation allowances have increased by approximately $28.8 million from December 31, 2018 to September 30, 2019 due largely to effects of TCJA relating to interest expense.

**9. Employee Benefit Plans**
**German Pension Plan**

The Company's subsidiary in Germany provides pension benefits to certain retirees. Employees eligible for participation include all employees who started working for the Company or its predecessors prior to September 30, 1987 and have finished a qualifying period of at least 10 years. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan. The German pension plan is an unfunded plan and therefore has no plan assets.

**U.K. Pension Plan**

The Company's subsidiary in the United Kingdom provides pension benefits to certain retirees and eligible dependents. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to October 2001. A retirement pension or a lump-sum payment may be paid dependent upon length of service at the mandatory retirement age. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

**Norway Pension Plan**

The Company's subsidiary in Norway provides pension benefits to eligible retirees and eligible dependents. Employees eligible for participation include all employees who were more than three years from retirement prior to March 2018. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

**Asterion Pension Plan**

The Company acquired certain pension benefit obligations to eligible retirees and eligible dependents in 2018 pursuant to the Asterion Business Combination. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to July 2003. A retirement pension or a lump-sum payment may be paid dependent upon length of service at the mandatory retirement age. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. As there are no active employees for this plan there are no earned pension entitlements and actuarial assumptions are only measured when assumptions are changed.

**Tax Effect on Accumulated Other Comprehensive Loss**

As of September 30, 2019 and December 31, 2018 the Company recorded actuarial losses of $8.9 million and $9.3 million in accumulated other comprehensive loss on the condensed consolidated balance sheets, respectively, which are net of a deferred tax benefit of $1.7 million.

**Pension Expense**

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The components of the net periodic benefit cost are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Service cost | $ 23 | $ 27 | $ 68 | $ 56 |
| Interest cost | 592 | 569 | 1,777 | 1,686 |
| Expected return on plan assets | (612) | (701) | (1,837) | (2,076) |
| Amortization: | | | | |
| Amortization of prior service cost | 25 | (34) | 76 | (102) |
| Amortization of net (gain) loss | 406 | 433 | 1,218 | 1,294 |
| Net periodic benefit cost | $ 434 | $ 294 | $ 1,302 | $ 858 |

Upon adopting ASU no. 2017-07 as described in Note 2, the Company now records pension interest cost within Interest expense, net. Expected return on plan assets, amortization of prior service costs, and amortization of net losses are recorded within Other income, net. Service cost is recorded within Cost of revenue.

**Employer Contributions**

The Company's funding of employer contributions is based on governmental requirements and differs from those methods used to recognize pension expense. The Company made contributions of $2.2 million and $2.3 million to its pension plans during the nine months ended September 30, 2019 and 2018, respectively. The Company has funded the pension plans with the required contributions for 2019 based on current plan provisions.

**10. Commitments and Contingencies**

**Appraisal Demand**

On September 21, 2017, former stockholders of SourceHOV Holdings, Inc. ("SourceHOV"), who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the acquisition of SourceHOV and Novitex Holdings, Inc., by Quinpario in July 2017 ("Novitex Business Combination"), which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their SourceHOV shares at the time of the Novitex Business Combination.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). The Court conducted a trial in June 2019, the parties submitted post-trial briefs in August 2019, and final arguments were held in October 2019. The Court's decision remains pending, but is expected by the end of January 2020. The parties and their experts have offered competing valuations of the SourceHOV shares as of the date of the Novitex Business Combination. SourceHOV argues the value was no more than $1,633.85 per share and the petitioners argue the value was at least $5,079.28 per share. Interest accrues on the value of the shares from the date of the Business Combination, resulting in a potential range of values based on the respective proposals of approximately $19.6 million to $61.0 million as of September 30, 2019. The Company believes the petitioners' claims of value of the SourceHOV shares are without merit and will continue to defend its position vigorously.

The Court may determine a fair value that is above or below the values indicated by the parties and their experts. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate what the Court will determine the fair value of SourceHOV common stock to be as of the date of the Novitex Business Combination. As a result of the Appraisal Action, 4,570,734 shares of our Common Stock issued to Ex-Sigma 2 LLC, our principal stockholder, will be forfeited at such time as the PIPE Financing (as defined in and pursuant to the terms of the Consent, Waiver and Amendment, dated June 15, 2017) is repaid.

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**11. Fair Value Measurement**

**Assets and Liabilities Measured at Fair Value**

The carrying amount of assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable approximated their fair value as of September 30, 2019, and December 31, 2018, due to the relative short maturity of these instruments. Management estimates the fair values of the secured term loan and secured notes at approximately 59.5% and 55.0% respectively, of the respective principal balance outstanding as of September 30, 2019. The fair value is substantially less than the carrying value for the long-term debt. Other debt represents the Company's outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company and as such, the cost incurred would approximate fair value. Property and equipment, intangible assets, capital lease obligations, and goodwill are not required to be re-measured to fair value on a recurring basis. These assets are evaluated for impairment if certain triggering events occur. If such evaluation indicates that impairment exists, the respective asset is written down to its fair value.

The Company determined the fair value of its long-term debt using Level 2 inputs including the recent issue of the debt, the Company's credit rating, and the current risk-free rate. The Company's contingent liabilities related to prior acquisitions are re-measured each period and represent a Level 2 measurement as it is based on using an earn out method based on the agreement terms.

The Company determined the fair value of the interest rate swap using Level 2 inputs. The Company uses closing prices as provided by a third party institution.

The following table provides the carrying amounts and estimated fair values of the Company's financial instruments as of September 30, 2019, and December 31, 2018:

| | Carrying | Fair | Fair Value Measurements | | |
|---|---|---|---|---|---|
| **As of September 30, 2019** | **Amount** | **Value** | **Level 1** | **Level 2** | **Level 3** |
| **Recurring assets and liabilities:** | | | | | |
| Long-term debt | $ 1,367,583 | $ 769,403 | $ — | $ 769,403 | $ — |
| Interest rate swap liability | 1,128 | 1,128 | — | 1,128 | — |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |
| **Nonrecurring assets and liabilities:** | | | | | |
| Goodwill | 609,458 | 609,458 | — | — | 609,458 |
| | **Carrying** | **Fair** | **Fair Value Measurements** | | |
| **As of December 31, 2018** | **Amount** | **Value** | **Level 1** | **Level 2** | **Level 3** |
| **Recurring assets and liabilities:** | | | | | |
| Long-term debt | $ 1,306,423 | $ 1,316,306 | $ — | $ 1,316,306 | $ — |
| Interest rate swap asset | 3,836 | 3,836 | — | 3,836 | — |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |
| **Nonrecurring assets and liabilities:** | | | | | |
| Goodwill | 708,258 | 708,258 | — | — | 708,258 |

The significant unobservable inputs used in the fair value of the Company's acquisition contingent liability are the discount rate, growth assumptions, and revenue thresholds. Significant increases (decreases) in the discount rate would have resulted in a lower (higher) fair value measurement. Significant increases (decreases) in the forecasted financial information would have resulted in a higher (lower) fair value measurement. For all significant unobservable inputs used in the fair value measurement of the Level 3 liabilities, a change in one of the inputs would not necessarily result in a directionally similar change in the other based on the current level of billings.

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The following table reconciles the beginning and ending balances of net assets and liabilities classified as Level 3 for which a reconciliation is required:

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Balance as of Beginning of Period | $ 721 | $ 721 |
| Payments/Reductions | — | — |
| Balance as of End of Period | $ 721 | $ 721 |

During the three months ended September 30, 2019, goodwill impairment charges totaling $98.7 million, including taxes, were recognized within our ITPS and LLPS segments (See Note 6).

**12. Stock-Based Compensation**

At closing of the Novitex Business Combination, SourceHOV had 24,535 restricted stock units (“RSUs”) outstanding under its 2013 Long Term Incentive Plan ("2013 Plan"). Simultaneous with the closing of the Novitex Business Combination, the 2013 Plan, as well as all vested and unvested RSUs under the 2013 Plan, were assumed by Ex-Sigma LLC (“Ex-Sigma”), an entity formed by the former SourceHOV equity holders, which is also indirectly the Company's principal stockholder. In accordance with GAAP, the Company continues to incur compensation expense related to the 9,880 unvested RSUs as of July 12, 2017 on a straight-line basis until fully vested, as the recipients of the RSUs are employees of the Company. Subject to continuous employment and other terms of the 2013 Plan, all remaining unvested RSUs with an initial vesting period of three or four years vested in April 2019. As of September 30, 2019, because all shares vested in April 2019, there are no nonvested shares related to the 2013 Plan.

**Exela 2018 Stock Incentive Plan**

On January 17, 2018, Exela’s 2018 Stock Incentive Plan (the “2018 Plan”) became effective. The 2018 Plan provides for the grant of incentive and nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, performance awards, and other stock-based compensation to eligible participants. The Company is authorized to issue up to 8,323,764 shares of Common Stock under the 2018 Plan.

**Restricted Stock Unit Grants**

Restricted stock unit awards generally vest ratably over a one to two year period. Restricted stock units are subject to forfeiture if employment terminates prior to vesting and are expensed ratably over the vesting period.

A summary of the status of restricted stock units related to the 2018 Plan as of September 30, 2019 is presented as follows:

| | Number of Shares | Weighted Average Grant Date Fair Value | Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Balance as of December 31, 2018 | 893,297 | $ 5.86 | 0.76 | $ 5,239 |
| Shares granted | 268,607 | | | |
| Shares forfeited | (151,067) | | | |
| Shares vested | (610,482) | | | |
| Balance as of September 30, 2019 | 400,355 | $ 2.12 | 1.43 | $ 849 |

The majority of the RSUs that vested in the three months ended September 30, 2019 were net-share settled such that the Company withheld shares with value equivalent to the employee’s minimum statutory obligation for applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld were 194,010 shares and were based on the value of the RSUs on their respective vesting dates as determined by the Company’s closing stock price. Total payment for the employee’s tax obligations to taxing authorities were $0.2 million and is reflected as a financing activity within the Condensed Consolidated Statements of Cash flows.

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**Options**

Under the 2018 Plan, stock options are granted at a price per share not less than 100% of the fair market value per share of the underlying stock at the grant date. The vesting period for each option award is established on the grant date, and the options generally expire 10 years from the grant date. Options granted under the 2018 Plan generally require no less than a two or four year ratable vesting period. Stock option activity in the first nine months of 2019 is summarized in the following table:

| | Outstanding | Weighted Average Exercise Price | Average Remaining Vesting Period (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Balance as of December 31, 2018 | 3,570,300 | $ 6.06 | 2.92 | $ 9,590 |
| Granted | 2,050,600 | | | |
| Exercised | — | | | |
| Forfeited | (618,200) | | | |
| Expired | — | | | |
| Balance as of September 30, 2019 | 5,002,700 | $ 4.13 | 2.74 | $ 9,864 |

As of September 30, 2019, there was approximately $7.5 million of total unrecognized compensation expense related to non-vested awards for the 2018 Plan, which will be recognized over the respective service period.

Stock-based compensation expense is recorded within Selling, general, and administrative expenses. The Company incurred total compensation expense of $1.4 million and $6.9 million related to plan awards for the three and nine months ended September 30, 2019 and $1.6 million and $4.5 million related to plan awards for the three and nine months ended September 30, 2018.

**13. Stockholders' Equity**

The following description summarizes the material terms and provisions of the securities that the Company has authorized.

**Common Stock**

The Company is authorized to issue 1,600,000,000 shares of Common Stock. Except as otherwise required by law or as otherwise provided in any certificate of designation for any series of preferred stock, the holders of Common Stock possess all voting power for the election of Exela's directors and all other matters requiring stockholder action and will at all times vote together as one class on all matters submitted to a vote of Exela stockholders. Holders of Common Stock are entitled to one vote per share on matters to be voted on by stockholders. Holders of Common Stock will be entitled to receive such dividends and other distributions, if any, as may be declared from time to time by the board of directors in its discretion out of funds legally available therefor and shall share equally on a per share basis in such dividends and distributions. The holders of the Common Stock have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the Common Stock. In August 2019, 150,000 shares of Series A Preferred Stock were converted into 183,389 shares of Common Stock. As of September 30, 2019 and December 31, 2018, there were 153,486,011 and 152,692,140 shares of Common Stock issued, respectively. As of September 30, 2019 and December 31, 2018, there were 150,698,864 and 150,142,955 shares outstanding, respectively.

**Preferred Stock**

The Company is authorized to issue 20,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors. At September 30, 2019 and December 31, 2018, the Company had 4,419,233 shares and 4,569,233 shares of Series A Preferred Stock outstanding, respectively. The par value of Series A Preferred Stock is $0.0001 per share. Each share of Series A Preferred Stock will be convertible at the holder's option, at any time after the six-month anniversary and prior to the third anniversary of the issue date, initially into 1.2226 shares of Common Stock.

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Holders of the Series A Preferred Stock will be entitled to receive cumulative dividends at a rate per annum of 10% of the Liquidation Preference per share of Series A Preferred Stock, paid or accrued quarterly in arrears. From the issue date until the third anniversary of the issue date, the amount of all accrued but unpaid dividends on the Series A Preferred Stock will be added to the Liquidation Preference without any action by the Company's board of directors. For the three months ended September 30, 2019 and 2018 this amount was $0.9 million as reflected on the Consolidated Statement of Operations. For the nine months ended September 30, 2019 and 2018 this amount was $2.7 million as reflected on the Consolidated Statement of Operations. The cumulative accrued but unpaid dividends of the Series A Preferred Stock since their inception on July 12, 2017 is $8.9 million. The per share averages of cumulative preferred dividends for the three and nine months ended September 30, 2019 and 2018 are $0.2.

Following the third anniversary of the issue date, dividends on the Series A Preferred Stock will be accrued by adding to the Liquidation Preference or paid in cash, or a combination thereof. In addition, holders of the Series A Preferred Stock will participate in any dividend or distribution of cash or other property paid in respect of the Common Stock pro rata with the holders of the Common Stock (other than certain dividends or distributions that trigger an adjustment to the conversion rate, as described in the Certificate of Designations), as if all shares of Series A Preferred Stock had been converted into Common Stock immediately prior to the date on which such holders of the Common Stock became entitled to such dividend or distribution.

**Treasury Stock**

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company was authorized to purchase, from time to time, up to 5,000,000 shares of its Common Stock through various means, including, open market transactions and privately negotiated transactions. The decision as to whether to purchase any shares and the timing of purchases was based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program did not obligate the Company to purchase any shares and has expired. The Company purchased 237,962 shares during the nine months ended September 30, 2019 under the Share Buyback Program. No shares were repurchased during the three months ended September 30, 2019. As of September 30, 2019, a total of 2,787,147 shares had been repurchased under the Share Buyback Program and are held in treasury stock. The Company records treasury stock using the cost method.

**Warrants**

At September 30, 2019 there were 34,988,302 warrants outstanding. As part of its IPO, Quinpario had issued 35,000,000 units including one share of common stock and one warrant of which 34,988,302 have been separated from the original unit and 11,698 warrants remain an unseparated part of the originally issued units. The warrants are traded on the OTC Bulletin Board as of September 30, 2019.

Each warrant entitles the holder to purchase one-half of one share of Common Stock at a price of $5.75 per half share ($11.50 per whole share). Warrants may be exercised only for a whole number of shares of Common Stock. No fractional shares will be issued upon exercise of the warrants. Each warrant is currently exercisable and will expire July 12, 2022 (five years after the completion of the Novitex Business Combination), or earlier upon redemption.

The Company may call the warrants for redemption at a price of $0.01 per warrant upon a minimum of 30 days' prior written notice of redemption, if, and only if, the last sales price of shares of Common Stock equals or exceeds $24.00 per share for any 20 trading days within a 30 trading day period (the "30-day trading period") ending three business days before we send the notice of redemption, and if, and only if, there is a current registration statement in effect with respect to the shares of Common Stock underlying such warrants commencing five business days prior to the 30-day trading period and continuing each day thereafter until the date of redemption.

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**14. Related-Party Transactions**

**Operating Facility Leases**

Certain operating companies lease their operating facilities from HOV RE, LLC and HOV Services Limited, which are affiliates under common control with Ex-Sigma. The rental expense for these operating leases was $0.1 million and $0.2 million for the three months ended September 30, 2019 and 2018, respectively, and $0.3 million and $0.5 million for the nine months ended September 30, 2019 and 2018, respectively.

**Consulting Agreement**

The Company receives services from Oakana Holdings, Inc. The Company and Oakana Holdings, Inc. are related through a family relationship between certain shareholders and the president of Oakana Holdings, Inc. The expense recognized for these services was $0.1 million for the three months ended September 30, 2019 and 2018, respectively. The expense recognized for these services was $0.1 million for the nine months ended September 30, 2019 and 2018, respectively.

The Company received consulting services from Shadow Pond, LLC. Shadow Pond, LLC is wholly owned and controlled by Vik Negi, our Executive Vice President Treasury and Business Affairs. The consulting arrangement was established to compensate Mr. Negi for his services to the Company prior to becoming an employee. The expense recognized for these services was $0.1 million for the nine months ended September 30, 2018. This consulting arrangement with Shadow Pond, LLC terminated on April 1, 2018 and Mr. Negi continues to provide services as an employee of the Company. As such, there were no additional expenses for the three months ended September 30, 2018 and for the three and nine months ended September 30, 2019.

**Relationship with HandsOn Global Management**

Pursuant to a master agreement dated January 1, 2015 between Rule 14, LLC and a subsidiary of the Company, the Company incurs marketing fees to Rule 14, LLC, a portfolio company of HandsOn Fund 4 I, LLC ("HGM"). Similarly, the Company is party to ten master agreements with entities affiliated with HGM's managed funds, each of which were entered into during 2015 and 2016. Each master agreement provides the Company with free use of certain technology and includes a reseller arrangement pursuant to which the Company is entitled to sell these services to third parties. Any revenue earned by the Company in such third-party sale is shared 75%/25% with each of HGM's venture affiliates in favor of the Company. The brands Zuma, Athena, Peri, BancMate, Spring, Jet, Teletype, CourtQ and Rewardio are part of the HGM managed funds. The Company has the license to use and resell such brands, as described therein. The fee relating to these agreements was $0.2 million for the three months ended September 30, 2019 and 2018, respectively. The Company incurred fees relating to these agreements of $0.3 million and $0.6 million for the nine months ended September 30, 2019 and 2018, respectively.

**Relationship with HOV Services, Ltd.**

HOV Services, Ltd. provides the Company data capture and technology services. HOV Services, Ltd is an indirect equity holder of Ex-Sigma. The expense recognized for these services was $0.4 million for the three months ended September 30, 2019 and 2018, respectively, and $1.1 million and $1.2 million for the nine months ended September 30, 2019 and 2018, respectively. These expenses are included in cost of revenue in the consolidated statements of operations.

**Relationship with Apollo Global Management, LLC**

The Company provides services to and receives services from certain Apollo Global Management, LLC ("Apollo") affiliated companies. Funds managed by Apollo have the right to designate two of the Company's directors. On November 18, 2014, one of the Company's subsidiaries entered into a master services agreement with an indirect wholly owned subsidiary of Apollo. Pursuant to this master services agreement, the Company provides printer supplies and maintenance services, including toner maintenance, training, quarterly business review and printer procurement. The

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Company recognized revenue of $0.1 million in our consolidated statements of operations from Apollo affiliated companies under this agreement for the three months ended September 30, 2019 and 2018, respectively. The company recognized revenue of $0.4 million and $0.5 million for the nine months ended September 30, 2019 and 2018, respectively, in our consolidated statements of operations from Apollo affiliated companies under this agreement.
On January 18, 2017, one of the Company’s subsidiaries entered into a master purchase and professional services agreement with Caesars Enterprise Services, LLC ("Caesars"). Caesars is controlled by investment funds affiliated with Apollo. Pursuant to this master purchase and professional services agreement, the Company provides managed print services to Caesars, including general equipment operation, supply management, support services and technical support. The Company recognized revenue of approximately $1.1 million in our consolidated statements of operations from Caesars under this master purchase and professional services agreement for the three months ended September, 2019 and 2018, respectively. The Company recognized revenue of approximately $3.3 million and $3.1 million in our consolidated statements of operations from Caesars under this master purchase and professional services agreement for the nine months ended September 30, 2019 and 2018, respectively.
On May 5, 2017, one of the Company’s subsidiaries entered into a master services agreement with ADT LLC. ADT LLC is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, the Company provides ADT LLC with mailroom and onsite mail delivery services at an ADT LLC office location and managed print services, including supply management, equipment maintenance and technical support services. The Company recognized revenue of $0.3 million and $0.2 million in our consolidated statements of operations from ADT LLC under this master services agreement for the three months ended September 30, 2019 and 2018, respectively. The Company recognized revenue of $0.9 million and $0.4 million in our consolidated statements of operations from ADT LLC under this master services agreement for the nine months ended September 30, 2019 and 2018, respectively.
On July 20, 2017, one of the Company’s subsidiaries entered into a master services agreement with Diamond Resorts Centralized Services Company. Diamond Resorts Centralized Services Company is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, the Company provides commercial print and promotional product procurement services to Diamond Resorts Centralized Services Company, including sourcing, inventory management and fulfillment services. The Company recognized revenue of $1.4 million and $0.7 million for the three months ended September 30, 2019 and 2018, respectively, from Diamond Resorts Centralized Services Company under this master services agreement. The Company recognized revenue of $4.0 million and $4.9 million for the nine months ended September 30, 2019 and 2018, respectively, and related party expense of $0.1 million for the nine months ended September 30, 2019 and 2018, respectively, from Diamond Resorts Centralized Services Company under this master services agreement.

In April 2016, one of the Company’s subsidiaries entered into a master services agreement with Presidio Networked Solutions Group, LLC ("Presidio Group"), a wholly owned subsidiary of Presidio, Inc., a portion of which is owned by affiliates of Apollo. Pursuant to this master services agreement, Presidio Group provides the Company with employees, subcontractors, and/or goods and services. For the three months ended September 30, 2019 and 2018 there were related party expenses of $0.4 million and $0.2 million, respectively, for this service. For the nine months ended September 30, 2019 and 2018 there were related party expenses of $0.7 million and $0.5 million, respectively, for this service.

In June 2019, one of the Company’s subsidiaries entered into a master lease agreement with Presidio Technology Capital, LLC ("Presidio Capital"), a wholly owned subsidiary of Presidio, Inc., a portion of which is owned by affiliates of Apollo. Pursuant to this master lease agreement, Presidio Capital provides the Company certain equipment on finance lease. The Company recorded a finance lease liability of $1.0 million for this lease. As of September 30, 2019 total finance lease liability of the Company included $1.0 million pertaining to this lease.

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**Payable and Receivable Balances with Affiliates**

Payable and receivable balances with affiliates as of September 30, 2019 and December 31, 2018 are as follows below. As of December 31, 2018 there were no related party receivables.

| | September 30, 2019 | | December 31, 2018 |
|---|---|---|---|
| | Receivable | Payable | Payable |
| HOV Services, Ltd | $ — | $ 23 | $ 405 |
| Rule 14 | — | 198 | 127 |
| HGM | 42 | — | 6,998 |
| Apollo affiliated company | — | 53 | 205 |
| | $ 42 | $ 274 | $ 7,735 |

**15. Segment and Geographic Area Information**

The Company's operating segments are significant strategic business units that align its products and services with how it manages its business, approach the markets and interacts with its clients. The Company is organized into three segments: ITPS, HS, and LLPS.

**ITPS:** The ITPS segment provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries.

**HS:** The HS segment operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets.

**LLPS:** The LLPS segment provides a broad and active array of legal services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters.

The chief operating decision maker reviews operating segment revenue and cost of revenue. The Company does not allocate Selling, general, and administrative expenses, depreciation and amortization, interest expense and sundry, net. The Company manages assets on a total company basis, not by operating segment, and therefore asset information and capital expenditures by operating segments are not presented.

| | Three months ended September 30, 2019 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 291,979 | $ 62,132 | $ 18,806 | $ 372,917 |
| Cost of revenue | 239,388 | 40,973 | 10,861 | 291,222 |
| Selling, general and administrative expenses | | | | 50,372 |
| Depreciation and amortization | | | | 27,114 |
| Impairment of goodwill and other intangible assets | | | | 99,682 |
| Related party expense | | | | 1,405 |
| Interest expense, net | | | | 39,747 |
| Debt modification and extinguishment costs | | | | — |
| Sundry income, net | | | | (10) |
| Other expense, net | | | | 581 |
| Net loss before income taxes | | | | $ (137,196) |

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| | Three months ended September 30, 2018 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 307,313 | $ 56,776 | $ 18,941 | $ 383,030 |
| Cost of revenue | 246,492 | 36,919 | 12,525 | 295,936 |
| Selling, general and administrative expenses | | | | 44,913 |
| Depreciation and amortization | | | | 35,041 |
| Related party expense | | | | 759 |
| Interest expense, net | | | | 38,339 |
| Debt modification and extinguishment costs | | | | 1,067 |
| Sundry income, net | | | | (2,571) |
| Other income, net | | | | (781) |
| Net loss before income taxes | | | | $ (29,673) |

| | Nine months ended September 30, 2019 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 925,709 | $ 186,915 | $ 54,217 | $ 1,166,841 |
| Cost of revenue | 743,557 | 119,816 | 32,737 | 896,110 |
| Selling, general and administrative expenses | | | | 151,884 |
| Depreciation and amortization | | | | 82,326 |
| Impairment of goodwill and other intangible assets | | | | 99,682 |
| Related party expense | | | | 3,454 |
| Interest expense, net | | | | 117,778 |
| Debt modification and extinguishment costs | | | | 1,404 |
| Sundry expense, net | | | | 1,028 |
| Other expense, net | | | | 4,965 |
| Net loss before income taxes | | | | $ (191,790) |

| | Nine months ended September 30, 2018 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 949,381 | $ 171,722 | $ 65,476 | $ 1,186,579 |
| Cost of revenue | 752,796 | 111,135 | 39,751 | 903,682 |
| Selling, general and administrative expenses | | | | 137,231 |
| Depreciation and amortization | | | | 109,428 |
| Related party expense | | | | 3,267 |
| Interest expense, net | | | | 114,883 |
| Debt modification and extinguishment costs | | | | 1,067 |
| Sundry income, net | | | | (4,961) |
| Other income, net | | | | (4,813) |
| Net loss before income taxes | | | | $ (73,205) |

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*You should read the following discussion and analysis together with our condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q. Among other things, the condensed consolidated financial statements include more detailed information regarding the basis of presentation for the financial data than included in the following discussion. Amounts in thousands of United States dollars.*

***Forward Looking Statements***

*Certain statements included in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this quarterly report are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by words such as "may", "should", "would", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "seem", "seek", "continue", "future", "will", "expect", "outlook" or other similar words, phrases or expressions. These forward-looking statements include statements regarding our industry, future events, estimated or anticipated future results and benefits, future opportunities for Exela, and other statements that are not historical facts. These statements are based on the current expectations of Exela management and are not predictions of actual performance. These statements are subject to a number of risks and uncertainties regarding Exela's businesses and actual results may differ materially. The factors that may affect our results include, among others: the impact of political and economic conditions on the demand for our services; the impact of a data or security breach; the impact of competition or alternatives to our services on our business pricing and other actions by competitors; our ability to address technological development and change in order to keep pace with our industry and the industries of our customers; the impact of terrorism, natural disasters or similar events on our business; the effect of legislative and regulatory actions in the United States and internationally; the impact of operational failure due to the unavailability or failure of third-party services on which we rely; the effect of intellectual property infringement; and other factors discussed in this quarterly report and our Annual Report on Form 10-K for the year ended December 31, 2018 (our "Annual Report") under the heading "Risk Factors" as supplemented by risk factors described in Part II, "Item 1A. Risk Factors" of our quarterly report for the quarter ended September 30, 2019, and otherwise identified or discussed in this quarterly report. You should consider these factors carefully in evaluating forward-looking statements and are cautioned not to place undue reliance on such statements, which speak only as of the date of this quarterly report. It is impossible for us to predict new events or circumstances that may arise in the future or how they may affect us. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this quarterly report. We are not including the information provided on the websites referenced herein as part of, or incorporating such information by reference into, this quarterly report. In addition, forward-looking statements provide Exela's expectations, plans or forecasts of future events and views as of the date of this quarterly report. Exela anticipates that subsequent events and developments may cause Exela's assessments to change. These forward-looking statements should not be relied upon as representing Exela's assessments as of any date subsequent to the date of this quarterly report.*

**Overview**

Exela is a business process automation ("BPA") leader, leveraging a global footprint and proprietary technology to provide digital transformation solutions enhancing quality, productivity, and end-user experience. With decades of expertise operating mission-critical processes, Exela serves a growing roster of more than 4,000 customers throughout 50 countries, including over 60% of the Fortune 100. With foundational technologies spanning information management, workflow automation, and integrated communications, Exela's software and services include multi-industry department solution suites addressing finance and accounting, human capital management, and legal management, as well as industry-specific solutions for banking, healthcare, insurance, and public sectors. Through cloud-enabled platforms, built on a configurable stack of automation modules, and over 22,000 employees operating in 23 countries, Exela rapidly deploys integrated technology and operations as an end-to-end digital journey partner.

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**History**

We are a former blank check company that completed our initial public offering on January 22, 2015. In July 2017, Exela Technologies, Inc. ("Exela"), formerly known as Quinpario Acquisition Corp. 2 ("Quinpario"), completed its acquisition of SourceHOV Holdings, Inc. ("SourceHOV") and Novitex Holdings, Inc. ("Novitex") pursuant to the business combination agreement dated February 21, 2017 ("Novitex Business Combination"). In conjunction with the completion of the Novitex Business Combination, Quinpario was renamed as Exela Technologies, Inc.

The Novitex Business Combination was accounted for as a reverse merger for which SourceHOV was determined to be the accounting acquirer. Outstanding shares of SourceHOV were converted into equity in a newly formed entity that acquired our common shares, presented as a recapitalization, and the net assets of Quinpario were acquired at historical cost, with no goodwill or other intangible assets recorded. The acquisition of Novitex was treated as a business combination under ASC 805 and was accounted for using the acquisition method. The strategic combination of SourceHOV and Novitex formed Exela, which is one of the largest global providers of information processing solutions based on revenues.

**Our Segments**

Our three reportable segments are Information & Transaction Processing Solutions ("ITPS"), Healthcare Solutions ("HS"), and Legal & Loss Prevention Services ("LLPS"). These segments are comprised of significant strategic business units that align our transaction processing solutions and enterprise information management products and services with how we manage our business, approach our key markets and interact with our customers based on their respective industries.

**ITPS:** Our largest segment, ITPS, provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries. Our major customers include the top 10 U.S. banks, 7 of the top 10 U.S. insurance companies, 4 of the top 5 U.S. telecom companies, over 40 utility companies, and over 400 state and local government entities. Our ITPS offerings enable companies to increase availability of working capital, reduce turnaround times for application processes, increase regulatory compliance and enhance consumer engagement.

**HS:** Our HS segment operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets. We serve the top 5 healthcare insurance payers and over 900 healthcare providers.

**LLPS:** Our LLPS segment provides a broad and active array of support services in connection with class action, bankruptcy, labor, claims adjudication and employment and other legal matters. Our customer base consists of corporate counsel, government attorneys, and law firms.

**Acquisitions**

On April 10, 2018, Exela completed the acquisition of Asterion International Group ("Asterion"), a well-established provider of technology driven business process outsourcing, document management and BPA across Europe. Asterion currently serves over 250 key customers in Europe from 13 operating locations and 30 customer sites. The purchase price was approximately $19.5 million. The acquisition comes with minimal customer overlap and is strategic to expand Exela's pro forma combined European business to over $200.0 million in annual revenue. This acquisition not only enables Asterion's customers to access Exela's full suite of BPA solutions but also strategically positions Exela to expand its existing revenue base through a broader portfolio of offerings with a larger European presence.

**Revenues**

ITPS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed, licensing and maintenance fees for technology sales, and a mix of fixed management fee and transactional

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revenue for document logistics and location services. HS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed for healthcare payers and providers. LLPS revenues are primarily based on time and materials pricing as well as through transactional services priced on a per item basis.

**People**

We draw on the business and technical expertise of our talented and diverse global workforce to provide our customers with high-quality services. Our business leaders bring a strong diversity of experience in our industry and a track record of successful performance and execution.

Costs associated with our employees represent the most significant expense for our business. We incurred personnel costs of $175.6 million and $168.8 million for the three months ended September 30, 2019 and 2018, respectively. We incurred personnel costs of $534.7 million and $516.5 million for the nine months ended September 30, 2019 and 2018, respectively. The majority of our personnel costs are variable and incurred only while we are providing our services.

**Key Performance Indicators**

We use a variety of operational and financial measures to assess our performance. Among the measures considered by our management are the following:

- Revenue by segment;
- EBITDA; and
- Adjusted EBITDA

***Revenue by segment***

We analyze our revenue by comparing actual monthly revenue to internal projections and prior periods across our operating segments in order to assess performance, identify potential areas for improvement, and determine whether our segments are meeting management's expectations.

***EBITDA and Adjusted EBITDA***

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integrations costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses. See ''—Other Financial Information (Non-GAAP Financial Measures)'' for more information and a reconciliation of EBITDA and Adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP.

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**Results of Operations**

**Three Months Ended September 30, 2019 compared to Three Months Ended September 30, 2018:**

| | Three Months Ended September 30, 2019 | Three Months Ended September 30, 2018 | Change | % Change |
|---|---|---|---|---|
| Revenue: | | | | |
| ITPS | $ 291,979 | $ 307,313 | $ (15,334) | -4.99% |
| HS | 62,132 | 56,776 | 5,356 | 9.43% |
| LLPS | 18,806 | 18,941 | (135) | -0.71% |
| Total revenue | 372,917 | 383,030 | (10,113) | -2.64% |
| Cost of revenue (exclusive of depreciation and amortization): | | | | |
| ITPS | 239,388 | 246,492 | (7,104) | -2.88% |
| HS | 40,973 | 36,919 | 4,054 | 10.98% |
| LLPS | 10,861 | 12,525 | (1,664) | -13.29% |
| Total cost of revenues | 291,222 | 295,936 | (4,714) | -1.59% |
| Selling, general and administrative expenses | 50,372 | 44,913 | 5,459 | 12.15% |
| Depreciation and amortization | 27,114 | 35,041 | (7,927) | -22.62% |
| Impairment of goodwill and other intangible assets | 99,682 | — | 99,682 | 100.00% |
| Related party expense | 1,405 | 759 | 646 | 85.11% |
| Operating income (loss) | (96,878) | 6,381 | (103,259) | -1618.23% |
| Interest expense, net | 39,747 | 38,339 | 1,408 | 3.67% |
| Debt modification and extinguishment costs | — | 1,067 | (1,067) | -100.00% |
| Sundry expense (income), net | (10) | (2,571) | 2,561 | -99.61% |
| Other expense (income), net | 581 | (781) | 1,362 | -174.39% |
| Net loss before income taxes | (137,196) | (29,673) | (107,523) | 362.36% |
| Income tax benefit (expense) | 3,769 | 733 | 3,036 | 414.19% |
| Net loss | $ (133,427) | $ (28,940) | $ (104,487) | 361.05% |

***Revenue***

Our ITPS, HS, and LLPS segments constituted 78.3%, 16.7%, and 5.0% of total revenue, respectively, for the three months ended September 30, 2019, compared to 80.2%, 14.8%, and 5.0%, respectively, for the three months ended September 30, 2018. The revenue changes by reporting segment were as follows:

ITPS— The decrease was primarily attributable to a decline of $15.6 million related to certain statements of work from one customer in the enterprise solutions business. This was partially offset by 2018 acquisitions and ramp up of new customers.

HS— The increase was primarily attributable to ramp up of new customers and acquisitions.

LLPS— Revenues remained flat for the comparable quarters.

***Cost of Revenue***

The cost of revenue changes by operating segment was as follows:

ITPS— Despite the decrease in postage pass through revenue in the current year and the exit of a low margin contract in the prior year, cost of revenue relative to revenue has increased by 1.8% over the prior year due to cost inflation and other factors.

HS— The increase primarily corresponded with the related revenue increase.

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LLPS— The decrease was primarily attributable to cost rationalization within the group.

***Selling, General and Administrative Expenses***

For the three months ended September 30, 2019, SG&A was $5.5 million higher than the three months ended September 30, 2018, mainly driven by higher legal and professional fees during the quarter.

***Depreciation & Amortization***

Amortization expenses were $7.9 million lower for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018, as a result of accelerated trade name write off during the financial year 2018. The accelerated trade name write off ended on December 31, 2018.

***Impairment of Goodwill and Other Intangible Assets***

Impairment of goodwill and other intangible assets for the three months ended September 30, 2019 was $99.7 million. During the three months ended September 30, 2019, the Company made an evaluation based on factors such as changes in the Company's growth rate and recent trends in the Company's market capitalization, and concluded that a triggering event for an interim impairment analysis had occurred in the third quarter of 2019. As a result of the interim impairment assessment, the Company recorded an impairment charge to goodwill and trade names of $98.7 million, including taxes, and $1.0 million, respectively.

***Related Party Expenses***

Related party expenses remained materially consistent with the prior year period.

***Interest Expense***

The Company pays interest on a semi-annual basis in the first and third quarters of each year; as such, interest expense remained materially consistent with the prior year period.

***Sundry Expense (Income)***

The increase of $2.6 million over the prior year period was primarily attributable to foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

The decrease of $1.4 million over the prior year period is primarily attributable to an interest rate swap entered into in 2017. The interest rate swap was not designated as a hedge. As such, changes in the fair value of this derivative instrument are recorded directly in earnings. For the three months ended September 30, 2019, the fair value of the interest swap decreased $0.6 million and for the three months ended September 30, 2018, the fair value increased $0.8 million resulting in a net change of $1.4 million.

***Income Tax (Expense) Benefit***

We had an income tax benefit of $3.8 million for the three months ended September 30, 2019, compared to an income tax benefit of $0.7 million for the three months ended September 30, 2018. The change in the income tax benefit was primarily attributable to our change in judgment related to the realizability of certain deferred tax assets. The change in the effective tax rate for the three months ended September 30, 2019, resulted from permanent tax adjustments and valuation allowances, including valuation allowances against disallowed interest expense deferred tax assets that are not more-likely-than-not to be realized.

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**Nine Months Ended September 30, 2019 compared to Nine Months Ended September 30, 2018:**

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | % Change |
| Revenue: | | | | |
| ITPS | $ 925,709 | $ 949,381 | $ (23,672) | -2.49% |
| HS | 186,915 | 171,722 | 15,193 | 8.85% |
| LLPS | 54,217 | 65,476 | (11,259) | -17.20% |
| Total revenue | 1,166,841 | 1,186,579 | (19,738) | -1.66% |
| Cost of revenue (exclusive of depreciation and amortization: | | | | |
| ITPS | 743,557 | 752,796 | (9,239) | -1.23% |
| HS | 119,816 | 111,135 | 8,681 | 7.81% |
| LLPS | 32,737 | 39,751 | (7,014) | -17.64% |
| Total cost of revenues | 896,110 | 903,682 | (7,572) | -0.84% |
| Selling, general and administrative expenses | 151,884 | 137,231 | 14,653 | 10.68% |
| Depreciation and amortization | 82,326 | 109,428 | (27,102) | -24.77% |
| Impairment of goodwill and other intangible assets | 99,682 | — | 99,682 | 100.00% |
| Related party expense | 3,454 | 3,267 | 187 | 5.72% |
| Operating income (loss) | (66,615) | 32,971 | (99,586) | -302.04% |
| Interest expense, net | 117,778 | 114,883 | 2,895 | 2.52% |
| Debt modification and extinguishment costs | 1,404 | 1,067 | 337 | 31.58% |
| Sundry expense (income), net | 1,028 | (4,961) | 5,989 | -120.72% |
| Other expense (income), net | 4,965 | (4,813) | 9,778 | -203.16% |
| Net loss before income taxes | (191,790) | (73,205) | (118,585) | 161.99% |
| Income tax expense | (5,689) | (4,911) | (778) | 15.84% |
| Net loss | $ (197,479) | $ (78,116) | $ (119,363) | 152.80% |

***Revenue***

Our ITPS, HS, and LLPS segments constituted 79.3%, 16.0%, and 4.7% of total revenue, respectively, for the nine months ended September 30, 2019, compared to 80.0%, 14.5%, and 5.5%, respectively, for the nine months ended September 30, 2018. The revenue changes by reporting segment were as follows:

ITPS— The decrease was primarily attributable to a decline of $55.6 million related to certain statements of work from one customer in the enterprise solutions business. The decrease was offset by an increase due to 2018 acquisitions and ramp up of new customers.

HS— The increase was primarily attributable to ramp up of new customers and acquisitions, offset by a decline in volume from a single customer who lost a contract from one of its customers.

LLPS— Revenues decreased due to a decline in legal claims administration services of $8.6 million.

***Cost of Revenue***

The cost of revenue changes by operating segment was as follows:

ITPS— Despite the decrease in postage pass through revenue in the current year and the exit of a low margin contract in the prior year, cost of revenue relative to revenue has increased by 1.0% over the prior year due to cost inflation and other factors.

HS— The increases primarily corresponded with the related revenue increase.

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LLPS— The decrease was primarily attributable to a corresponding decrease in revenue in legal claims administration services.

***Selling, General and Administrative Expenses***

For the nine months ended September 30, 2019, SG&A was $14.7 million higher than the nine months ended September 30, 2019, mainly driven by higher stock compensation expense related to the equity awards granted to certain employees in the second half of 2018. The increase was also driven by higher legal, professional fee and higher investments in sales and strategy teams to drive the growth of the Company.

***Depreciation & Amortization***

Amortization expenses were $27.1 million lower for the nine months ended September 30, 2019, as compared to the nine months ended September 30, 2018, as a result of accelerated trade name write off during the financial year 2018. The accelerated trade name write off ended on December 31, 2018.

***Impairment of Goodwill and Other Intangible Assets***

Impairment of goodwill and other intangible assets for the nine months ended September 30, 2019 was $99.7 million. During the three months ended September 30, 2019, the Company made an evaluation based on factors such as changes in the Company's growth rate and recent trends in the Company's market capitalization, and concluded that a triggering event for an interim impairment analysis had occurred in the third quarter of 2019. As a result of the interim impairment assessment, the Company recorded an impairment charge to goodwill and trade names of $98.7 million, including taxes, and $1.0 million, respectively.

***Related Party Expenses***

Related party expenses remained flat as compared with the prior year period.

***Interest Expense***

The Company pays interest on a semi-annual basis in the first and third quarters of each year; as such, interest expense remained materially consistent with the prior year period.

***Sundry Expense (Income)***

The increase of $6.0 million over the prior year period was primarily attributable to foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

The decrease of $9.8 million over the prior year period is primarily attributable to an interest rate swap entered into in 2017. The interest rate swap was not designated as a hedge. As such, changes in the fair value of this derivative instrument are recorded directly in earnings. For the nine months ended September 30, 2019, the fair value of the interest swap decreased $5.0 million and for the nine months ended September 30, 2018, the fair value increased $4.8 million, for a net decrease of $9.8 million.

***Income Tax (Expense) Benefit***

We had an income tax expense of $5.7 million for the nine months ended September 30, 2019, compared to an income tax expense of $4.9 million for the nine months ended September 30, 2018. The change in the income tax expense was primarily attributable to our change in judgment related to the realizability of certain deferred tax assets. The change in the effective tax rate for the nine months ended September 30, 2019, resulted from permanent tax

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adjustments and valuation allowances, including valuation allowances against disallowed interest expense deferred tax assets that are not more-likely-than-not to be realized.

**Other Financial Information (Non-GAAP Financial Measures)**

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integrations costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses.

We present EBITDA and Adjusted EBITDA because we believe they provide useful information regarding the factors and trends affecting our business in addition to measures calculated under GAAP. Additionally, our credit agreement requires us to comply with certain EBITDA related metrics. Refer to ‘‘—Liquidity and Capital Resources—Credit Facility.’’

***Note Regarding Non-GAAP Financial Measures***

EBITDA and Adjusted EBITDA are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial performance and results of operations as our board of directors and management use EBITDA and Adjusted EBITDA to assess our financial performance, because it allows them to compare our operating performance on a consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization) and items outside the control of our management team. Net loss is the GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some but not all items that affect the most directly comparable GAAP financial measures. You should not consider EBITDA and Adjusted EBITDA in isolation or as substitutes for an analysis of our results as reported under GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

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**Three Months ended September 30, 2019 compared to the Three Months ended September 30, 2018**

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the three months ended September 30, 2019 and 2018. 2018 reconciliation items between EBITDA and Adjusted EBITDA have been adjusted for comparability purposes in the table below. EBITDA and Adjusted EBITDA for the three months ended September 30, 2018 remains unchanged.

| | Three Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Net Loss | $ (133,427) | $ (28,940) |
| Taxes | (3,769) | (733) |
| Interest Expense | 39,747 | 38,339 |
| Depreciation and Amortization | 27,114 | 35,041 |
| EBITDA | (70,335) | 43,707 |
| Optimization and restructuring expenses (1) | 16,848 | 16,506 |
| *Process transformation* | 15,694 | 15,048 |
| *Customer transformation* | 1 | — |
| *Mergers and acquisitions* | 1,153 | 1,458 |
| Transaction and integration costs (2) | 1,155 | 220 |
| Non-cash equity compensation (3) | 1,444 | 1,621 |
| Other charges including non-cash (4) | 9,193 | 5,788 |
| Loss (Gain) on sale of assets (5) | (22) | 769 |
| Debt modification and extinguishment costs | — | 1,067 |
| (Gain)/Loss on derivative instruments (6) | 580 | (781) |
| Impairment of goodwill and other intangible assets | 99,682 | — |
| Adjusted EBITDA | $ 58,545 | $ 68,898 |

1. Adjustment represents net salary and benefits associated with positions, current vendor expenses and existing lease contracts that are part of the on-going savings and productivity improvement initiatives in process transformation, customer transformation and post-merger or acquisition integration.
2. Represents costs incurred related to transactions for completed or contemplated transactions during the period.
3. Represents the non-cash charges related to restricted stock units and options granted by Ex-Sigma and Exela to our employees that vested during the year.
4. Represents fair value adjustments to deferred revenue and deferred rent accounts established as part of purchase accounting and other non-cash charges. Other charges include severance, retention bonus, facility consolidation and other transition costs.
5. Represents a loss/(gain) recognized on the disposal of property, plant, and equipment and other assets.
6. Represents the impact of changes in the fair value of an interest rate swap entered into during the fourth quarter of 2017.

***EBITDA and Adjusted EBITDA***

EBITDA was negative $70.3 million for the three months ended September 30, 2019, compared to $43.7 million for the three months ended September 30, 2018. The decrease in EBITDA for the three months ended September 30, 2019 was primarily attributable to the higher net loss and a $99.7 million impairment of goodwill and trade name. Adjusted EBITDA was $58.5 million for the three months ended September 30, 2019, compared to $68.9 million for the three months ended September 30, 2018. The decrease in Adjusted EBITDA for the three months ended September 30, 2019 was primarily due to higher net loss. Foreign currency losses during the period impacted adversely as it is not part of adjustments to EBITDA or Adjusted EBITDA.

**Nine Months ended September 30, 2019 compared to the Nine Months ended September 30, 2018**

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the nine months months ended September 30, 2019 and 2018. 2018

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reconciliation items between EBITDA and Adjusted EBITDA have been adjusted for comparability purposes in the table below. EBITDA and Adjusted EBITDA for the nine months ended September 30, 2018 remains unchanged.

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Net Loss | $ (197,479) | $ (78,116) |
| Taxes | 5,689 | 4,911 |
| Interest expense | 117,778 | 114,883 |
| Depreciation and amortization | 82,326 | 109,428 |
| EBITDA | 8,314 | 151,106 |
| Optimization and restructuring expenses (1) | 59,217 | 35,128 |
| *Process transformation* | 55,197 | 33,671 |
| *Customer transformation* | 103 | — |
| *Mergers and acquisitions* | 3,917 | 1,458 |
| Transaction and integration costs (2) | 4,193 | 2,097 |
| Non-cash equity compensation (3) | 6,903 | 4,516 |
| Other charges including non-cash (4) | 16,975 | 17,302 |
| Loss on sale of assets (5) | 404 | 1,434 |
| Loss on business disposals (6) | — | 720 |
| Debt modification and extinguishment costs | 1,404 | 1,067 |
| (Gain)/Loss on derivative instruments (7) | 4,965 | (4,813) |
| Impairment of goodwill and other intangible assets | 99,682 | — |
| Adjusted EBITDA | $ 202,057 | $ 208,558 |

1. Adjustment represents net salary and benefits associated with positions, current vendor expenses and existing lease contracts that are part of the on-going savings and productivity improvement initiatives in process transformation, customer transformation and post-merger or acquisition integration.
2. Represents costs incurred related to transactions for completed or contemplated transactions during the period.
3. Represents the non-cash charges related to restricted stock units and options granted by Ex-Sigma and Exela to our employees that vested during the year.
4. Represents fair value adjustments to deferred revenue and deferred rent accounts established as part of purchase accounting and other non-cash charges. Other charges include severance, retention bonus, facility consolidation and other transition costs.
5. Represents a loss recognized on the disposal of property, plant, and equipment and other assets.
6. Represents a loss recognized on the disposal of business.
7. Represents the impact of changes in the fair value of an interest rate swap entered into during the fourth quarter of 2017.

***EBITDA and Adjusted EBITDA***

EBITDA was $8.3 million for the nine months ended September 30, 2019, compared to $151.1 million for the nine months ended September 30, 2018. The decrease in EBITDA for the nine months ended September 30, 2019 was primarily attributable to the higher net loss and a $99.7 million impairment of goodwill and trade name. Adjusted EBITDA was $202.1 million for the nine months ended September 30, 2019, compared to $208.6 million for the nine months ended September 30, 2018. The decrease in Adjusted EBITDA for the nine months ended September 30, 2019, was primarily due to a higher net loss. Foreign currency losses during the period impacted adversely as it is not part of adjustments to EBITDA or Adjusted EBITDA.

**Liquidity and Capital Resources**

**Overview**

Our primary source of liquidity is cash generated from operating activities, supplemented as necessary on a short-term basis by borrowings against our senior secured revolving credit facility. We believe our current level of cash

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and short-term financing capabilities along with future cash flows from operations are sufficient to meet the needs of the business.

We currently expect to spend approximately $40.0 to $45.0 million on total capital expenditures over the next twelve months. We believe that our operating cash flow and available borrowings under our credit facility will be sufficient to fund our operations for at least the next twelve months.

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under our senior secured credit facilities (the “Repricing Term Loans”). The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement (the “Credit Agreement”).

On July 13, 2018, the Company borrowed a further $30.0 million pursuant to incremental term loans under the Credit Agreement. On April 16, 2019, the Company borrowed an additional $30.0 million pursuant to incremental term loans under the Credit Agreement. The proceeds of these incremental term loans (collectively, the “Incremental Term Loans”) were used to replace the cash spent for acquisitions, pay related fees, expenses and related borrowings and for general corporate purposes.

The Repricing Term Loans and the Incremental Term Loans bear interest at a rate per annum consisting of, at the Company’s option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.0% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.5%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.0%, in each case plus an applicable margin of 6.5% for LIBOR loans and 5.5% for base rate loans. The Repricing Term Loans and the Incremental Term Loans will mature on July 12, 2023.

At September 30, 2019, cash and cash equivalents totaled $15.2 million and we had availability of $40.0 million under our senior secured revolving credit facility.

The Company is pursuing a debt reduction and liquidity improvement initiative that contemplates the pursuit of the sale of certain non-core businesses that are not central to the Company’s long-term strategic vision. The disposition of those businesses would reduce indebtedness and enhance the Company’s ability to focus on its core businesses. The Company has retained financial advisors to assist with the sale of select assets. As part of the initiative, the Company is also seeking to take steps in the near term to increase its liquidity to approximately $125.0 million to $150.0 million, which would allow it to increase its overall financial flexibility. The Company expects to use the net proceeds from the initiative for the repayment of debt, with a target reduction of $150.0 to $200.0 million. The Company has set a two-year timetable for completion of the initiative. There can be no assurance that the initiative or any particular element of the initiative will be consummated or will achieve its desired result.

**Cash Flows**

The following table summarizes our cash flows for the periods indicated:

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | % Change |
| Cash flow from operating activities | $ (33,639) | $ (2,280) | $ (31,359) | 1375.39% |
| Cash flow used in investing activities | (34,815) | (28,002) | (6,813) | 24.33% |
| Cash flows (used in) provided by financing activities | 39,854 | (1,005) | 40,859 | -4065.57% |
| Subtotal | (28,600) | (31,287) | 2,687 | -8.59% |
| Effect of exchange rates on cash | (29) | (554) | 525 | -94.77% |
| Net increase/(decrease) in cash | (28,629) | (31,842) | 3,213 | -10.09% |

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**Analysis of Cash Flow Changes between the Nine Months Ended September 30, 2019 and September 30, 2018**

Operating Activities—The decrease of $31.4 million in cash flows from operating activities for the nine months ended September 30, 2019 was primarily due to higher cash inflows in 2018 due to receipt of settlement funds for the legal business, higher gross profits, changes in accounts payable and accrued liabilities, and a decrease in related party payables in 2019. The decrease was offset by higher cash flows from accounts receivable in 2019.

Investing Activities—The decrease of $6.8 million in cash used in investing activities was primarily due to higher outsourcing contract costs of $9.0 million for the nine months ended September 30, 2019 due to the ramp of new revenue and $2.0 million higher cash paid for developing internal software. The increase was offset by a $3.0 million decrease in cash paid for adding property, plant and equipment and lower cash paid for acquisitions.

Financing Activities—The increase of $40.9 million in cash provided by financing activities was primarily due to draw down of $39.0 million from the senior secured revolving facility in third quarter of 2019 to fund the semi-annual interest payment on the senior secured notes.

**Indebtedness**

In connection with the Novitex Business Combination, we acquired debt facilities and issued notes totaling $1.4 billion. Proceeds from the indebtedness were used to pay off credit facilities existing immediately before the Novitex Business Combination.

*Senior Credit Facilities*

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the “Credit Agreement”) providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, (i) a $350.0 million senior secured term loan maturing July 12, 2023 with an original issue discount of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022. The Credit Agreement provided for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company’s option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility was 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility was 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity.

*Senior Secured Notes*

Senior secured notes of $1.0 billion due July 2023 were also issued as part of the Novitex Business Combination. The notes bear interest at a rate of 10.0% per year. We pay interest on the notes on January 15 and July 15 of each year, commencing on January 15, 2018. The notes are guaranteed by subsidiary guarantors pursuant to a supplemental indenture.

*Term Loan Repricing*

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the “Repricing”). The Repricing was accomplished pursuant to a First Amendment to First Lien Credit Agreement (the “First Amendment”), dated as of July 13, 2018, by and among Exela Intermediate Holdings LLC, the Company, each “Subsidiary Loan Party” listed on the signature pages thereto, Royal Bank of Canada, as

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administrative agent, and each of the lenders party thereto, whereby the Company borrowed $343.4 million of refinancing term loans (the "Repricing Term Loans") to refinance the Company's existing senior secured term loans.

The Repricing Term Loans will bear interest at a rate per annum of, at the Company's option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.0% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.5%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.0%, in each case plus an applicable margin of 6.5% for LIBOR loans and 5.5% for base rate loans. The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the prior senior secured term loans. As of September 30, 2019, the interest rate applicable for the Repricing Term Loans was 8.85%.

*Incremental Term Loans*

On July 13, 2018, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the "2018 Incremental Term Loans") under the First Amendment to the Credit Agreement. The proceeds of the 2018 Incremental Term Loans were used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment.

On April 16, 2019, the Company successfully borrowed a further $30.0 million pursuant to incremental term loans (the "2019 Incremental Term Loans", and, together with the 2018 Incremental Terms Loans, the "Incremental Term Loans") under the Second Amendment to the Credit Agreement. The proceeds of the 2019 Incremental Term Loans were used to replace the cash spent for acquisitions, pay related fees, expenses and related borrowings for general corporate purposes.

The Incremental Term Loans bear interest at a rate per annum that is the same as the Repricing Term Loans. The Incremental Term Loans will mature on July 12, 2023, the same maturity date as the Repricing Term Loans.

The Company may voluntarily repay the Repricing Term Loans and the Incremental Term Loans (collectively, the "Term Loans") at any time, without prepayment premium or penalty, except in connection with a repricing event as described in the following sentence, subject to customary "breakage" costs with respect to LIBOR rate loans. Any refinancing of the Term Loans through the issuance of certain debt or any repricing amendment, in either case, that constitutes a "repricing event" applicable to the Term Loans resulting in a lower yield occurring at any time during the first six months after July 13, 2018, will be accompanied by a 1.0% prepayment premium or fee, as applicable.

Other than as described above, the terms, conditions and covenants applicable to the Incremental Term Loans are consistent with the terms, conditions and covenants that were applicable to the Repricing Term Loans under the Credit Agreement and which are described in the registrant's Current Reports on Form 8-K filed with the Securities and Exchange Commission on July 18, 2017 and July 17, 2018.

*Letters of Credit*

As of September 30, 2019 and December 31, 2018, we had outstanding irrevocable letters of credit totaling approximately $21.0 million and $20.6 million, respectively, under the revolving credit facility.

**Potential Future Transactions**

We may, from time to time, explore and evaluate possible strategic transactions, which may include joint ventures, as well as business acquisitions or the acquisition or disposition of assets. In order to pursue certain of these opportunities, additional funds will likely be required. There can be no assurance that we will enter into additional strategic transactions or alliances, nor do we know if we will be able to obtain the necessary financing for transactions that require additional funds on favorable terms, if at all.

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**Off Balance Sheet Arrangements**

At September 30, 2019 we had no material off balance sheet arrangements, except letters of credit described above under Liquidity and Capital Resources. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements.

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

**Interest Rate Risk**

At September 30, 2019, we had $1,404.9 million of debt outstanding, with a weighted average interest rate of 9.5%. Interest is calculated under the terms of our credit agreement based on the greatest of certain specified base rates plus an applicable margin that varies based on certain factors. Assuming no change in the amount outstanding, the impact on interest expense of a 1% increase or decrease in the assumed weighted average interest rate would be approximately $14.0 million per year. In order to mitigate interest rate fluctuations with respect to term loan borrowings under the Credit Agreement, in November 2017, we entered into a three year one-month LIBOR interest rate swap contract with a notional amount of $347.8 million, which at the time was the remaining principal balance of the term loan. The swap contract swaps out the floating rate interest risk related to the LIBOR with a fixed interest rate of 1.9275% effective January 12, 2018.

The interest rate swap, which is used to manage our exposure to interest rate movements and other identified risks, was not designated as a hedge. As such, changes in the fair value of the derivative are recorded directly to other income as a loss of $5.0 million and a gain of $5.5 million for the nine months ended September 30, 2019 and 2018, respectively.

**Foreign Currency Risk**

We are exposed to foreign currency risks that arise from normal business operations. These risks include transaction gains and losses associated with intercompany loans with foreign subsidiaries and transactions denominated in currencies other than a location's functional currency. Contracts are denominated in currencies of major industrial countries.

**Market Risk**

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. We do not use derivatives for trading purposes, to generate income or to engage in speculative activity.

**Item 4. Internal Controls and Procedures**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that material information required to be disclosed in our reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, with a company have been detected.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the

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effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective due to material weaknesses in internal control over financial reporting described in our 10-K as of December 31, 2018.

Notwithstanding such material weaknesses in internal control over financial reporting, our management, including our CEO and CFO, has concluded that our consolidated financial statements present fairly, in all material respects, our financial position, results of our operations and our cash flows for the periods presented in this Quarterly Report, in conformity with U.S. generally accepted accounting principles.

**Remediation**

As previously described in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, we began implementing a remediation plan to address the material weaknesses mentioned above. The weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the quarter-ended September 30, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

*Appraisal Demand*

On September 21, 2017, former stockholders of SourceHOV Holdings, Inc. (“SourceHOV”), who allege combined ownership of 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017-0673-JRS (the "Appraisal Action"). The Appraisal Action arises out of the acquisition of SourceHOV and Novitex Holdings, Inc., by Quinpario in July 2017 (“Novitex Business Combination”), which gave rise to appraisal rights pursuant to 8 Del. C. § 262. In the Appraisal Action, the petitioners seek, among other things, a determination of the fair value of their SourceHOV shares at the time of the Novitex Business Combination.

On October 12, 2017, SourceHOV filed its answer to the petition and a verified list pursuant to 8 Del. C. § 262(f). The Court conducted a trial in June 2019, the parties submitted post-trial briefs in August 2019, and final arguments were held in October 2019. The Court’s decision remains pending, but is expected by the end of January 2020. The parties and their experts have offered competing valuations of the SourceHOV shares as of the date of the Novitex Business Combination. SourceHOV argues the value was no more than $1,633.85 per share and the petitioners argue the value was at least $5,079.28 per share. Interest accrues on the value of the shares from the date of the Business Combination, resulting in a potential range of values based on the respective proposals of approximately $19.6 million to $61.0 million as of September 30, 2019. The Company believes the petitioners’ claims of value of the SourceHOV shares are without merit and will continue to defend its position vigorously.

The Court may determine a fair value that is above or below the values indicated by the parties and their experts. At this stage of the litigation, the Company is unable to predict the outcome of the Appraisal Action or estimate what the Court will determine the fair value of SourceHOV common stock to be as of the date of the Novitex Business Combination. As a result of the Appraisal Action, 4,570,734 shares of our Common Stock issued to Ex-Sigma 2 LLC, our principal stockholder, will be forfeited at such time as the PIPE Financing (as defined in and pursuant to the terms of the Consent, Waiver and Amendment, dated June 15, 2017) is repaid.

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*Other*

We are, from time to time, involved in other legal proceedings, inquiries, claims and disputes, which arise in the ordinary course of business. Although our management cannot predict the outcomes of these matters, our management believes these actions will not have a material, adverse effect on our financial position, results of operations or cash flows.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this report, you should carefully consider the risk factors described in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, which could materially affect our business, financial condition and/or operating results. The risks described in these Risk Factors are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On November 8, 2017, the Company's board of directors authorized a share buyback program (the "Share Buyback Program"), pursuant to which the Company was authorized to purchase, from time to time, up to 5,000,000 shares of its Common Stock through various means, including, open market transactions and privately negotiated transactions. The decision as to whether to purchase any shares and the timing of purchases were based on the price of the Company's Common Stock, general business and market conditions and other investment considerations and factors. The Share Buyback Program did not obligate the Company to purchase any shares and has expired. We purchased 2,499,885 shares under the Share Buyback Program during 2018 at an average share price of $4.71. No shares were repurchased during the three months ended September 30, 2019. Share repurchases for the nine months ended September 30, 2019 were 237,962 at an average share price of $2.74. As of September 30, 2019, a total of 2,787,147 shares had been repurchased under the Share Buyback Program. The Company records treasury stock using the cost method.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

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**Item 6. Exhibits.**

| Exhibit No. | Description |
|---|---|
| 2.1 | Business Combination Agreement, dated as of February 21, 2017, by and among Quinpario Acquisition Corp. 2, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., Novitex Holdings, Inc., SourceHOV Holdings, Inc., Novitex Parent, L.P, HOVS LLC and HandsOn Fund 4 I, LLC (3) |
| 3.1 | Restated Certificate of Incorporation, dated July 12, 2017 (4) |
| 3.2 | Second Amended and Restated Bylaws, dated November 6, 2019. |
| 4.1 | Specimen Common Stock Certificate (1) |
| 4.2 | Specimen Warrant Certificate (1) |
| 4.3 | Form of Warrant Agreement between Continental Stock Transfer & Trust Company and the Registrant (1) |
| 4.4 | Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc. as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee (4) |
| 4.5 | First Supplemental Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc., as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee (4) |
| 10.1 | First Amendment to First Lien Credit Agreement, dated as of July 13, 2018, by and among Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each Subsidiary Loan Party listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto. (2) |
| 10.2 | Exela Technologies Inc. 2018 Stock Incentive Plan.(6) |
| 10.3 | Form of Option Grant Notice and Agreement under the Exela Technologies Inc. 2018 Stock Incentive Plan. (6) |
| 10.4 | Form of Restricted Stock Unit Grant and Agreement under the Exela Technologies Inc. 2018 Stock Incentive Plan. (6) |
| 10.5 | Second Amendment to First Lien Credit Agreement, dated as of April, 17, 2019, by and among Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each Subsidiary Loan Party listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto. (5) |
| 10.6 | Exela Technologies, Inc. Executive Officer Annual Bonus Plan. |
| 31.1 | Certification of the Principal Executive Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 31.2 | Certification of the Principal Financial and Accounting Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 32.1 | Certification of the Principal Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 |
| 32.2 | Certification of the Principal Financial and Accounting Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

(1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-198988).
(2) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 13, 2018.
(3) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed on February 22, 2017.
(4) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 18, 2017.
(5) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on April 17, 2019.
(6) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed on May 10, 2019.

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## SIGNATURES

Pursuant to the requirements of the Section 13 or 15 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 12th day of November, 2019.

EXELA TECHNOLOGIES, INC.
By:/s/ Ronald Cogburn
Ronald Cogburn
Chief Executive Officer (Principal Executive Officer)
By:/s/ James G. Reynolds
James G. Reynolds
Chief Financial Officer (Principal Financial and Accounting Officer)

# Exhibit 15

S&P Global
Market Intelligence

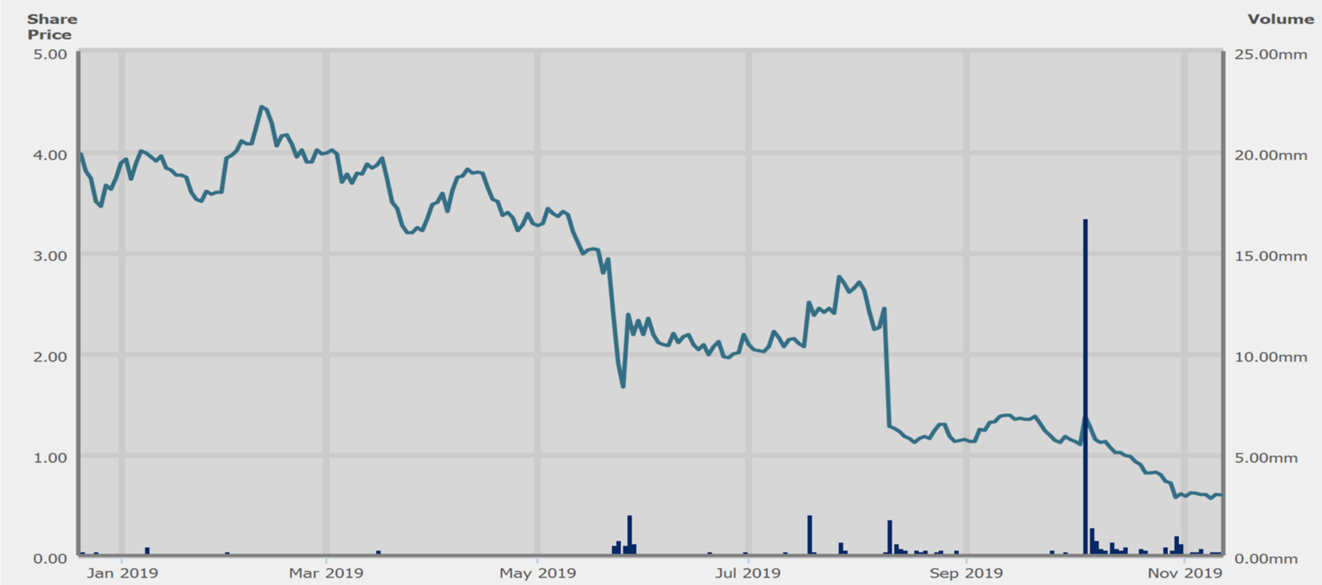
# Exela Technologies, Inc. NasdaqCM:XELA
# FQ3 2019 Earnings Call Transcripts

## Tuesday, November 12, 2019 10:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ3 2019- | | | -FQ4 2019- | -FY 2019- | -FY 2020- |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| **EPS (GAAP)** | (0.07) | (0.89) | NM | (0.02) | (0.51) | 0.24 |
| **Revenue (mm)** | 393.95 | 372.92 | ▼(5.34 %) | 411.21 | 1599.06 | 1669.02 |

Currency: USD
Consensus as of Nov-11-2019 11:38 PM GMT




**- EPS (GAAP) -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ4 2018** | (0.12) | (0.56) | NM |
| **FQ1 2019** | (0.06) | (0.21) | NM |
| **FQ2 2019** | (0.05) | (0.23) | NM |
| **FQ3 2019** | (0.07) | (0.89) | NM |

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# Call Participants

## EXECUTIVES

**James G. Reynolds**
*CFO & Director*

**Ronald Clark Cogburn**
*Chief Executive Officer*

**William Maina**
*Senior Vice President*

## ANALYSTS

**Daniel Reagan**
*Cantor Fitzgerald*

**Trent Porter;Nuveen;Director**

# Presentation

**Operator**

Good day and welcome to the Exela Technologies Incorporated Third Quarter 2019 Financial Results Conference Call. [Operator Instructions] Please note that this event is being recorded.

I would now like to turn the conference over to William Maina, Investor Relations. Please go ahead, sir.

**William Maina**
*Senior Vice President*

Thank you, Chuck. Good afternoon. Welcome, everyone, to the Exela Technologies Third Quarter 2019 Conference Call. I'm joined here by Ron Cogburn, Exela's Chief Executive Officer; and Jim Reynolds, our Chief Financial Officer.

Following prepared remarks made by Ron and Jim, we'll take your questions. Today's conference call is being broadcast live via webcast, which is available on our Investor Relations page of Exela's website at exelatech.com. Replay of this call will be available until November 19, 2019. Information to access the replay is listed in today's press release, which is now also available on the Investor Relations page of Exela's website.

During today's call, Exela will make certain statements regarding future events and financial performance that may be characterized as forward-looking statements. Under the Private Securities Litigation Reform Act of 1995, these forward-looking statements are subject to known and unknown risks and uncertainties and are based on current expectations and assumptions. We undertake no obligation to update any statements to reflect the events that occur after this call, and actual results could differ materially from those -- from any forward-looking statements. For more information, please refer to the risk factors discussed in Exela's most recently filed periodic report on Form 10-Q, along with the Associated Press release and the company's other filings with the SEC. Copies are available from the SEC or Investor Relations page of Exela's website.

During today's call, we will refer to certain non-GAAP financial measures. We believe these non-GAAP financial measures provide additional information on how management view the operating performance of our business. Reconciliations between GAAP and non-GAAP results we discuss on today's call can be found on the Investor Relations page of our website. As a reminder, financial results discussed on today's call reflect pro forma combined company results for the business combination of SourceHOV Holdings and Novitex Holdings, which closed on July 12, 2017. Please note the presentation that accompanies this conference call and investor fact sheet are also accessible on the Investor Relations page of our website.

I'd now like to turn the call over to Ron Cogburn, our CEO. Ron?

**Ronald Clark Cogburn**
*Chief Executive Officer*

Thanks, Will. Good afternoon, and thanks, everyone, for joining us today. As you have read in our earnings press release, Exela has shared an important update to the strategic process that we've been working on over the past few months. With the approval of the Board, we recently adopted a new strategic debt reduction and liquidity improvement initiative. The goals of this initiative are simple, pay down debt, increase liquidity and divest of noncore assets. In addition to improving our financial flexibility in the near term, we believe this initiative will further enable Exela to focus on our core business where we are best positioned for sustained, profitable, long-term growth, and I'll provide a little more detail in a couple of slides.

Now let's look at Slide #4 to begin and discuss the Q3 2019 financial summary. I'm just going to call out a couple of points here. Jim Reynolds, our CFO, will cover further details later in the presentation. Our revenue, excluding postage and postage handling and our previously announced low-margin client exit,

grew by 2.4% in the third quarter and is up 3.2% year-to-date, details of which can be found in our fact sheet and our earnings release.

Additionally, as part of the strategic initiative announced today, we have a goal of increasing our liquidity to approximately $125 million to $150 million from $50.4 million as of September 30. In addition, we're planning to repay debt with a target reduction of $150 million to $200 million through the sale of certain noncore assets.

Now let's turn to Slide #5, and I'll give you a little more color on the initiative that I just mentioned. As I said, the Board has adopted the debt reduction and liquidity improvement initiative. As part of the initiative, we're taking steps to increase our liquidity through a number of financing options. This is a message that we've heard mentioned by the market a few times. And to that end, the company has retained an adviser and we'll provide further details as they emerge. To fund the debt reduction side of the initiative, the company is pursuing the sale of certain noncore assets which are not central to our long-term strategic vision. We've attained -- we have retained additional financial advisers to assist us with the sale of those assets.

As I noted earlier, we expect to use the net proceeds of the initiative to repay and balance our debt with a target reduction of $150 million to $200 million. We expect to announce information about the specific transactions forming part of this overall initiative in Q4 or in Q1 of 2020. We've set a 2-year timetable for the completion of this initiative, and we look forward to providing you updates on our plan as soon as we have further details to announce.

Now let's turn to Slide #6. I'd like to talk about the Q3 results in more detail, beginning with our optimization and restructuring charges, or what we call the O&R. In the third quarter, O&R charges totaled $16.8 million. Our M&A-related O&R charges, which include all the initiatives that are attributable to the recently completed acquisitions, were $1.2 million. We continue to expect these costs to become negligible once these initiatives are completed.

Moving to our process transformation O&R charges. As we've discussed, process transformation is primarily related to our cost optimization initiatives through the deployment of our in-house proprietary technology. This creates better efficiency, reduces head count and enables us to take advantage of planned facility consolidations and related vendor spend reductions. For the quarter, $15.7 million worth of process transformation costs in Q3 are expected to be shed through these initiatives and should be realized once the initiatives are completed.

Looking at the third O&R category, which is customer transformation. This expense was 0 in the third quarter. As we've discussed in the past quarters, cost in this bucket will be more intermittent in nature and will appear in particular quarters where there is a specific customer transformation initiative. This cost occurs when specific customers need a transition period for the work to be ramped or onboarded or even moved from one location to another. Similar to Q2, we've also shown the split of the O&R, but between COGS and SG&A. $12.7 million of O&R is attributable to COGS and $4.2 million is related to SG&A to help illustrate the pro forma impact of our gross profit dollars and operating income once all the initiatives are realized.

Now let's turn to Slide #7, which covers our business transformation. Similar to the last quarter, we wanted to provide you with a view into how much of our transformation has been accomplished so far and to the -- and to quantify the expected pro forma impact of the savings on the gross profit dollars. Now the rightmost bar, which represents for the business stands as of Q3 2019, is at 26% gross margin net of postage, postage handling revenue and low-margin client exit. Once the $12.7 million of O&R charges have been realized, the gross margin is expected to reach approximately 31%.

Next, let's jump back to the left side of the slide, starting with the first column. Approximately 45% to 50% of our business is operating around 35% gross margin, which is about 9 points higher than the consolidated gross margin. The margin performance is reflective of the process transformation and operational improvements that we have made and been executing over the last decade. The second column represents 35% to 40% of the revenue, currently operates at approximately 18% gross margin after 2 years under our transformation plan. And the third bar from the left represents the remaining 15%

to 20% of our revenue and generates approximately 21% gross margin after 5 years in transformation. By continuing to execute our technology and process transformation initiatives, we believe the businesses in the second and third column from the left have the potential to generate margins approaching 35% as represented in the first column. This implies significant opportunity to expand our gross profit margin and does not include any expected impact from noncore asset sales as part of our debt reduction initiative. Now as a reminder, while we remain confident that the ongoing improvements we are making will fundamentally transform our COGS, they require both investment and time.

Let's turn to Slide #8. Head count is our largest cost component of our business. The technology we use to provide automation to the business processes enables Exela to work toward a lower total variable cost. We saw total employee head count decline 3.2% sequentially in Q3, with reductions across each of our major geographies driven primarily by our ongoing O&R initiatives.

Now let's turn to Slide #9, and let's talk about our top 200 customers and our customer segmentation. Let's take a moment and look at the positive effect our strategy is having on our customer segmentation. Now you'll recall back in 2018, our focus on the top 200 customers yielded an impressive growth rate of 12% on an organic basis year-over-year. The remaining customers in that category, called All Others, declined by 13%. Now 3 quarters of the way through 2019, Exela continues to transform the statistic of the All Others basket into one of positive growth on a year-over-year basis. We accomplished this turnaround through deploying the same strategies that we utilized on the top 200 to grow these customers.

We're very encouraged by the investments and the focus of the top 200 customers and expanding to the rest of the business. The strategy primarily is responsible for the growth year-over-year and year-to-date of our businesses when excluding the pass-through revenue and the lower-margin client exit. The relative contributions of revenue from the top 200 and All Other customers has stayed flat to Q2 levels at 72% and 28%, respectively, demonstrating that we are holding the All Others basket steady.

Now let's move to Slide #10, and let's talk about our customer scorecard and our revenue. Our diversified revenue base for the first 9 months has remained fairly constant, with 35% of the revenue within our top 20 customers that has an average tenure now of more than 16 years. That's very impressive. The top 100 and 200 customers represent 60% and 72%, respectively. Americas now is represented by 82% of revenue, and as we mentioned, Europe has grown and it now represents 18% of the revenue in the first 9 months of 2019.

Here's an important statistic. Now we have 10 customers that were $25 million or more who have annual revenue in 2018. But year-to-date, we have 8 customers now through 9 months that is $25 million or more. Through the first 9 months of 2019, our customer count generating over $1 million in annual revenue has now grown to $267 million as compared to all of 2018, which was $259 million.

Now let's take a moment, and I'd like to talk about what's making a difference on our global sales, and that is our strategic deal teams. These folks are focused on identifying the opportunities to expand within our top customers, while partnering with them on their digital journeys. Our conversation with those customers centers on our platforms and solutions, and it addresses their mission-critical challenges with everything from revenue cycle management to digital mailroom, workflow automation, information management, just to mention a few.

Now one example that we're very proud of is that recent win that you probably read about with the VA, with our new $2 billion Veterans Intake, Conversion, and Communication Services, or what they call the VICCS program. We're very proud of this win. You probably are curious about what we're going to actually do for the program with our partner, GDIT. Some of the services we are already providing in previous contracts with the VA as well. Our services with this new engagement include digital claims intake, enterprise-wide facts consolidation and intake processing, centralized mail handling and processing and digitization and [ NARA-compliant ] records management services and storage.

Future services could also include automated print and mail, outbound communications, further automation of incoming and outgoing processes and data analysis and intelligent processing and service delivery. This award promises to expand Exela's current role in assisting the veterans benefit claims

nationwide and is a consequence of many years of investment by Exela digital health care technologies and services.

In closing, with our continued focus on our core business and our new initiative for debt reduction and increased liquidity, we believe Exela is well positioned for sustained growth and improve shareholder value. You'll begin to see the early results of some of our efforts in Q4, whilst the overall journey will take up to 2 years to complete. This is a pivotal moment for us. While we have a lot of work to do over this time period, we believe we are building the foundation for a stronger Exela for the long term.

Now I'd like to hand the call over to Jim Reynolds, our CFO, who will discuss our financial results in greater detail. Jim?

**James G. Reynolds**
*CFO & Director*

Thanks, Ron. Moving to Slide 12 and looking at our P&L. Third quarter revenue totaled $372.9 million. On a constant currency basis, revenue was $375.9 million.

Looking at our segments. Revenue for our ITPS segment was $292 million, a decrease of 5% year-over-year from $307.3 million. This decrease was driven primarily by the impact of the low-margin contract exit we had discussed in the third quarter of 2018, along with a few customer contracts that got pushed to start later in this year.

Our Healthcare Solutions segment grew 9% on a year-over-year basis, totaling $62.1 million, up from $56.8 million in the third quarter of 2018. The results in health care were consistent with our expectations and driven by the health care acquisition and increased volume with existing clients.

Our Legal and Loss Prevention Segment, or legal, totaled $18.8 million in the third quarter, flat with the prior year period. Gross margins for the third quarter declined on a year-over-year basis by 83 bps to approximately 22%. The margin decline was due primarily to a revenue decline in wage increases, offset by continued transformation and cost-savings initiatives. As Ron mentioned, gross margins in our business net of pass-through and the low-margin contract exit was 26% in Q3 of 2019.

SG&A for the quarter totaled $50.4 million and was 13.5% of revenue compared to 11.7% in the third quarter of 2018. The increase in SG&A was driven primarily by higher expenses related to onetime legal costs and increased professional fees. This was offset partially by savings realization. Our depreciation and amortization expense was $27.1 million, down from $35 million in the prior period. During 2018, we had accelerated amortization of certain trade names.

During the third quarter, the company recorded a noncash impairment charge to goodwill and trade names of $99.7 million. This review was completed during the current quarter versus the fourth quarter, as the company concluded that a triggering event had occurred for an interim impairment analysis.

The operating loss for the third quarter of 2019 was $96.9 million compared with operating income of $6.4 million in the third quarter of 2018. This decline was primarily driven by the noncash impairment charge we just discussed, along with lower revenue and higher SG&A expenses.

Looking at EBITDA to adjusted EBITDA. The largest adjustment was the noncash impairments charge, which is included in #2 as an adjustment for noncash and other charges. This bucket also includes onetime debt extinguishment costs, onetime legal costs, cash severance for employees and customer exit costs. The adjustment for optimization and restructuring expense in the quarter totaled $16.8 million. Approximately $15.7 million is related to the costs associated with process transformation. Adjusted EBITDA for the quarter totaled $58.5 million, a decrease of 15.1% on a year-over-year basis. Adjusted EBITDA margin for the third quarter was 15.7% compared with 18% in the third quarter of 2018.

Turning to our next slide, 13. Liquidity at the end of the third quarter was $50.4 million. Our total net debt was $1.485 billion. As discussed earlier, the company is pursuing a debt reduction and liquidity improvement plan. As a reminder, the company's debt maturities come due in July 2023, over 3.5 years from now.

Also, during the third quarter of 2019, the company did not purchase any shares of common stock. Cumulative shares repurchased under the company's share buyback program totaled 2,787,147 shares since the program inception.

Moving to Slide 14. Taking into account our consolidated third quarter results, the continued unpredictable nature of our revenue from postage, a slower ramp of certain new projects and longer-than-expected sales cycles, we are updating our 2019 full year guidance. We now expect 2019 revenue of $1.55 billion to $1.56 billion and adjusted EBITDA of $255 million to $265 million. We remain highly focused on our initiatives to grow our core lines of business and to generate incremental cash flow. Our CapEx is expected to be approximately 2.5% of revenue, and our capital allocation policy remains unchanged, and it is to pay down debt and reduce our leverage. We expect our near-term net leverage ratio to be approximately 4x. This concludes our formal comments. Operator, with that, please open up the line for questions.

# Question and Answer

**Operator**

[Operator Instructions] And our first question will come from Joseph Foresi of Cantor Fitzgerald.

**Daniel Reagan**
*Cantor Fitzgerald*

This is Dan Reagan on for Joe Foresi. So I just wanted to ask if you could provide a little more color on free cash flow expectations? And in addition, I'm interested in knowing a little more about the liquidity initiative? And how you actually plan to execute the debt paydown?

**James G. Reynolds**
*CFO & Director*

Sure. This is Jim Reynolds. Thanks for the question. If you take a look at free cash flow, this is something we have discussed historically, which is the impact on our overall cash flows in Q1 and Q3 with respect to the large bond payment of over $55 million. If you take a look at Q1, our liquidity at that point in time was about $57.9 million. And if you look at Q3, we're at $50.4 million, so down slightly. What I would also say is, we're pursuing the liquidity plan because we think it's prudent to add incremental cushion. In talking with all of our investors and looking at the business, we feel comfortable with where our liquidity is heading for the rest of the year, but it's the right thing to do because there's not a ton of cushion. So we think it's well better received and discussed with the Board on the appropriate plan to move forward, and those are the actions we've discussed at length.

**Daniel Reagan**
*Cantor Fitzgerald*

Got it. Got it. And then I just wanted to follow up with one more. Just was hoping to get some updates on synergies that you might be seeing from SourceHoV and Novitex?

**James G. Reynolds**
*CFO & Director*

So once again, Ron discussed the OR -- O&R expenses we incurred during the quarter. Those are a direct result of us focusing our attention on the synergies overall. If you look at the slide that presents our gross margin, it shows the trend based on the amount of time we've held on to the asset. You see the expansion in gross margins, which is what's driven through synergies and the cost-savings initiatives. During the quarter, we did see a slight improvement in the assets we've held less than a few years. That's where we're focusing to embed and put in our technology to drive those margins in excess of where we are across the board from a company perspective.

**Ronald Clark Cogburn**
*Chief Executive Officer*

And you're talking about Slide #7, Jim, right?

**James G. Reynolds**
*CFO & Director*

That's correct. Yes.

**Operator**

Our next question will come from Trent Porter of Nuveen.

**Trent Porter;Nuveen;Director**

All right. I have a couple of easy ones, I think. The first one, you may have -- forgive me if you've answered this on last quarter's call, but the -- I find myself scratching my head again. The postage, I think, is 0 margin, and then the exit of the -- from the low-margin customer was expected an unknown quantity. So can you expand a little bit on kind of the major buckets of what's driving the margin miss versus your expectations? And then sort of tie into that, the margin decline year-over-year because I would think that the sort of the mix impact of exiting a low-margin account, all other things being equal, would have a positive impact on margin? And then just sort of a follow-up to that same question, can you talk about just what's behind the slower ramp of projects in the longer sales cycle?

**James G. Reynolds**
*CFO & Director*

Sure. Thanks. This is Jim. You had multiple questions, obviously, in there. I'll try and make sure I address them all. So let me get started. The first question is really about the postage and pass-through costs. It is low-margin business. It's just really not predictable for us. And when that postage comes through, it will fluctuate significantly between quarters. That's something we haven't been very good at predicting historically, so we're working on improving that. But in one day, you can find out a month later that you're going to have a large job that requires to be delivered, which will show a lot of incremental revenue and no corresponding profit. So that's one aspect of the question.

With respect to the low-margin contract we exited, we made -- we discussed it at length on our Q3 call, I think, again, in our Q4 call, that contract was a profitable contract for us. And as a result of us rebidding the contract, they were looking for -- we presented a digital solution which would have reduced our overall revenue but increased our margins from where they were. The customer was looking for more of an analog solution with a digital price. So when we talk about the exit of the low-margin contract, it was profitable. But if we were to continue with that, we would have lost money under the contract. And since we are for profit, we did not go forward with losing money on that contract, so we walked away from that contract. It had been with us for a period of time. And as we have contracts that have been with us longer, we put a lot of our technology, we've increased our productivity so it comes through at a higher margin.

With respect to the comment about the customers maybe not ramping fully, we're -- these are complex solutions. We have decent visibility into when they're going to hit based on our discussions with our ops people. But you're relying on multiple constituents from the customer that requires sign-offs, and those sign-offs take time. You're using your IT resources and others. So while the contracts are there, it's not always easy to predict the exact time the contract will fully ramp. We've been ramping new contracts throughout the year, but as a result of certain delays, some of them have not fully ramped.

**Trent Porter;Nuveen;Director**

I understand. I think I'm having a hard time articulating my question. So my question is more -- I get it on the postage, it's almost -- it's very difficult to anticipate. It's going to be lumpy. But as I understand it, if you thought you're going to have $1 million and you've got $500 million, it's 0 margin, it's passthrough. So it's 0 margin business, so it shouldn't impact your EBITDA margin -- the EBITDA margin. It will impact the revenue, but not the margin that you had anticipated as a management team. And then the -- in addition, the loss of the customer or the exit from the customer business -- I understand, I'm with you on that. It's just that, that was a known quantity to you. So the -- that said, the miss on the earnings side is what I'm -- on the EBITDA margin side relative to your expectations is what I'm having a hard time completely understanding. And maybe we can take it offline, but that's -- it's hard to articulate, I get it, but...

**James G. Reynolds**
*CFO & Director*

No, no, I hear you. I think that, also, we talked about onetime cost that impacted our SG&A. During the quarter, we had some unfavorable costs associated with legal and professional fees.

**Trent Porter;Nuveen;Director**

Weren't those an add back?

**James G. Reynolds**
*CFO & Director*

So those things are onetime in nature that we didn't necessarily predict.

**Trent Porter;Nuveen;Director**

Okay. I mean, were those not added back to EBITDA?

**James G. Reynolds**
*CFO & Director*

They were in the add backs, yes. I'm saying from a GAAP perspective.

**Trent Porter;Nuveen;Director**

Right. Right. And so I guess, I mean, that there is -- for example, your EBITDA guidance for the year, it went down last quarter. And I'm not -- I hate to be a pain, it's just -- I want to make sure that I understand. The EBITDA guidance has gone down. And so -- and the EBITDA margin is down year-over-year. So I just want to better understand what's driving -- what was unfavorable? What is the unfavorable variance versus your budget, specifically on the EBITDA margin side?

**James G. Reynolds**
*CFO & Director*

So I think that's another thing we discussed on the call, and maybe it was missed, is that in Q3, we have Europe, which we have incremental cost where we're adding staff. Now 18% of our business overall in Europe -- is in Europe. And in the month of August, a lot of that business slows down, but we don't terminate people, obviously, we keep them on the payroll, and we have to hire incremental staff and temp help to get work done. So there was some of that, that we were not able to predict. But I appreciate the question and be more than happy to follow up offline.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Ron Cogburn for any closing remarks. Please go ahead, sir.

**Ronald Clark Cogburn**
*Chief Executive Officer*

Yes, I want to thanks everybody for attending the call today. We look forward to seeing you on our next quarterly call. And if you do have questions, you can reach out to myself or to Jim Reynolds or to Will Maina with ICR who handles our Investor Relations.

Thanks, everyone, for attending.

**Operator**

The conference has now concluded. Thank you for attending today's presentation.
You may now disconnect.

# Exhibit 16

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-K

**(Mark One)**

**☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2019**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission File Number: 001-36788**

# EXELA TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Delaware**<br>(State of or other Jurisdiction Incorporation or Organization) | **47-1347291**<br>(I.R.S. Employer Identification No.) |
| **2701 E. Grauwyler Rd. Irving, TX**<br>(Address of Principal Executive Offices) | **75061**<br>(Zip Code) |

Registrant's Telephone Number, Including Area Code: **(844) 935-2832**

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class | Trading Symbol | Name of Each Exchange On Which Registered |
|---|---|---|
| Common Stock, Par Value $0.0001 per share | XELA | The Nasdaq Stock Market LLC |

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the Registrant (1) has filed all reports required by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☐ Yes ☒ No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). ☐ Yes ☒ No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer ☐ | Accelerated filer ☒ | Non-accelerated filer ☐ | Smaller reporting company ☒<br>Emerging growth company ☐ |

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

The aggregate market value of the Registrant's voting common equity held by non-affiliates of the Registrant, computed by reference to the price at which such voting common equity was last sold as of June 30, 2019, was approximately $92,130,068 (based on a closing price of $2.18).

As of June 5, 2020, the Registrant had 147,511,430 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Shareholders to be held in 2020, which definitive proxy statement shall be filed with the Securities and Exchange Commission no later than June 12, 2020.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements included in this Annual Report on Form 10-K ("Annual Report") are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigat

ion Reform Act of 1995. Forward-looking statements generally are accompanied by words such as "may", "should", "would", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "seem", "seek", "continue", "future", "will", "expect", "outlook" or other similar words, phrases or expressions. These forward-looking statements include statements regarding our industry, future events, the estimated or anticipated future results and benefits of the Novitex Business Combination, future opportunities for the combined company, and other statements that are not historical facts. These statements are based on the current expectations of Exela management and are not predictions of actual performance. These statements are subject to a number of risks and uncertainties regarding Exela's businesses, and actual results may differ materially. The factors that may affect our results include, among others: the impact of political and economic conditions on the demand for our services; the impact of the COVID-19 pandemic; the impact of a data or security breach; the impact of competition or alternatives to our services on our business pricing and other actions by competitors; our ability to address technological development and change in order to keep pace with our industry and the industries of our customers; the impact of terrorism, natural disasters or similar events on our business; the effect of legislative and regulatory actions in the United States and internationally; the impact of operational failure due to the unavailability or failure of third-party services on which we rely; the effect of intellectual property infringement; and other factors discussed in this report under the headings "Risk Factors", "Legal Proceedings", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and otherwise identified or discussed in this Annual Report. You should consider these factors carefully in evaluating forward-looking statements and are cautioned not to place undue reliance on such statements, which speak only as of the date of this report. It is impossible for us to predict new events or circumstances that may arise in the future or how they may affect us. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this report. We are not including the information provided on the websites referenced herein as part of, or incorporating such information by reference into, this Annual Report. In addition, forward-looking statements provide Exela's expectations, plans or forecasts of future events and views as of the date of this report. Exela anticipates that subsequent events and developments will cause Exela's assessments to change. These forward-looking statements should not be relied upon as representing Exela's assessments as of any date subsequent to the date of this report.

**DEFINED TERMS**

In this Annual Report, we use the terms "Company", "we", "us", or "our" to refer to Exela Technologies, Inc. and its consolidated subsidiaries, and where applicable, our predecessors SourceHOV and Novitex prior to the closing of the Novitex Business Combination. "Following is a glossary of other abbreviations and acronyms that are found in this Annual Report."

*"Appraisal Action"* means the petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017 0673 JRS.

"*BPA"* means business process automation.

"*BPO"* means business process outsourcing

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Common Stock*" means the common stock of the Company, par value $0.0001.

"*Consent, Waiver and Amendment*" means the Consent, Waiver and Amendment dated June 15, 2017, by and among the Company, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., SourceHOV, Novitex, Novitex Parent, L.P., Ex Sigma LLC, HOVS LLC and HandsOn Fund 4 I, LLC, amending the Novitex Business Combination Agreement.

"*EIM*" means enterprise information management.

"*ERP*" means enterprise resource planning system.

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"*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

"Ex-Sigma 2" means Ex-Sigma 2 LLC, our principal stockholder at the Closing of the Novitex Business Combination.

"*Ex-Sigma*" means Ex-Sigma LLC, the sole equity holder of Ex-Sigma 2.

"*GAAP*" means generally accepted accounting principles in the United States.

"*HGM Group*" means, collectively, HOVS LLC and HandsOn Fund 4 I, LLC and certain of their respective affiliates.

"*HITECH Act of 2009*" means the Health Information Technology for Economic and Clinical Health Act, enacted under Title XIII of the American Recovery and Reinvestment Act of 2009.

*"HIPAA"* means the Health Insurance Portability and Accountability Act of 1996.

*"IT"* mean information technology.

"*JOBS Act"* means the Jumpstart our Business Startups Act.

"*Margin Loan*" means the additional PIPE financing in the form of a $55.8 million loan obtained by Ex-Sigma 2 as borrower (and secured by shares of the Company held by Ex-Sigma 2) that was used by Ex-Sigma 2 to purchase additional common and preferred shares from the Company to help meet the minimum cash requirements needed to close the Novitex Business Combination.

"*MegaCenter"* means the Company's Tier-III document processing and outsourcing centers in Windsor, Connecticut, and Austin, Texas.

"*Nasdaq*" means The Nasdaq Stock Market.

"*Novitex*" means Novitex Holdings, Inc., a Delaware corporation.

"*Novitex Business Combination*" means the transactions contemplated by the Novitex Business Combination Agreement, which closed on July 12, 2017 and resulted in SourceHOV and Novitex becoming our wholly-owned subsidiaries and the financing transactions entered into in connection therewith.

"*Novitex Business Combination Agreement*" means the Business Combination Agreement, dated February 21, 2017, among the Company, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., SourceHOV, Novitex, HOVS LLC, HandsOn Fund 4 I, LLC and Novitex Parent, L.P., as amended by the Consent, Waiver and Amendment.

"*PCIDSS*" means the Payment Card Industry Data Security Standard.

"*Quinpario*" means Quinpario Acquisition Corp. 2, a Delaware corporation, the former name of Exela Technologies, Inc.

"*SEC*" means the United States Securities and Exchange Commission.

"*Securities Act*" means the Securities Act of 1933, as amended.

"*SourceHOV*" means SourceHOV Holdings, Inc., a Delaware corporation.

"*TCJA*" means the Tax Cut and Jobs Act.

"*TPS*" means transaction processing solutions.

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## EXPLANATORY NOTE

**Overview of Restatement**

In this Annual Report on Form 10-K, the Company:

(a) restates its Consolidated Balance Sheets as of December 31, 2018 and the related Consolidated Statements of Operations, Consolidated Statements of Comprehensive Loss, Consolidated Statements of Stockholders' Deficit, and Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2018 and 2017;

(b) amends its Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") as it relates to the fiscal years ended December 31, 2018 and 2017;

(c) restates its "Selected Financial Data" in Item 6 for fiscal years 2018 and 2017; and

(d) restates its Unaudited Quarterly Financial Data for the first three fiscal quarters in the fiscal year ended December 31, 2019 and each fiscal quarter in the fiscal year ended December 31, 2018.

**Background on the Restatement**

As previously disclosed in the Company's Current Report on Form 8-K filed with the SEC on March 17, 2020, the board of directors of the Company, based on the recommendation of the audit committee and in consultation with management, concluded that, because of errors identified in the Company's previously issued financial statements for the fiscal years ended December 31, 2018 and 2017 and the first three quarters of fiscal 2019, the Company would restate its previously issued financial statements, including the quarterly data for fiscal years 2019 and 2018 and its selected financial data for the relevant periods.

These errors were discovered during the course of preparing this Annual Report and the audit of the financial results for fiscal 2019. We have determined that these errors were the result of material weaknesses in internal control over financial reporting that are reported in management's report on internal control over financial reporting as of December 31, 2019 in Part II—Item 9A – Controls and Procedures of this Annual Report.

The restated financial statements correct the following errors:

*Appraisal Action Liability Adjustments*:

- $43.1 million, $40.6 million and $37.8 million understatement of accrued liabilities and total stockholders' deficit, as at September 30, 2019, December 31, 2018 and 2017, respectively, due to applying an incorrect accounting treatment for the obligation to pay the fair market value of the former stockholders' shares under the Appraisal Action.

- $2.4 million, $2.9 million and $1.2 million understatement of loss for the nine months ended September 30, 2019 and for the years ended December 31, 2018 and 2017, respectively, due to the unrecorded interest expense accrual associated with the Company's obligation related to the Appraisal Action. Interest should have been accrued in the relevant periods at the rate set by the Delaware Court of Chancery.

*Outsourced Contract Cost Adjustments*:

- A $5.3 million understatement of loss for the nine months ended September 30, 2019 and a $3.2 million overstatement of loss for the year ended December 31, 2018, due to the incorrect capitalization of employee training related costs during the set-up phase as costs of fulfilling contracts which should have been expensed under ASC 340-40. Additionally, an adjustment of $15.4 million was recorded to increase accumulated deficit as of January 1, 2018 to correct the previously-recorded transition adjustment for costs of fulfilling contracts upon the adoption of ASC 606 and ASC 340-40. These errors resulted in $17.3 million and $12.0 million overstatement of intangible assets, net as of September 30, 2019 and December 31, 2018, respectively.

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*Expense Reimbursement Adjustments*:

- A $2.1 million understatement of loss and related party payables for the nine months ended September 30, 2019, due to non-accrual of the obligation to reimburse Ex-Sigma 2 for the discount to the market price on shares sold by Ex-Sigma 2 in a secondary offering in June 2019 and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment.

- A $2.4 million understatement of loss and related party payables for the year ended December 31, 2018, due to non-accrual of the obligation to reimburse Ex-Sigma 2 for the underwriting discount and commission expenses of $2.1 million and an advisory fee of $0.3 million incurred by Ex-Sigma 2 in a secondary offering in April 2018 and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment.

- A $1.5 million overstatement of loss for the nine months ended September 30, 2019, due to an amount paid to Ex-Sigma 2 in July 2019 for the fees incurred in connection with the secondary offering, out of a total reimbursable amount of $4.5 million as discussed in the two bullet points above, was erroneously recorded as selling, general and administrative expenses.

- $1.7 million and $5.2 million understatement of loss for the nine months ended September 30, 2019 and for the year ended December 31, 2018, respectively, due to the unrecorded related party expense accrual associated with the Company's obligation to reimburse Ex-Sigma 2 in connection with premium payments made by Ex-Sigma 2 under the Margin Loan and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment. This error resulted in $6.9 million and $5.2 million understatement of related party payables as of September 30, 2019 and December 31, 2018, respectively.

- $0.5 million and $0.4 million overstatement of selling, general and administrative expenses and understatement of related party expense by the same amount for the nine months ended September 30, 2019 and year ended December 31, 2018, respectively, due to incorrect classification of related party expense as selling, general and administrative expenses. This error had no impact on net loss.

*Revenue Recognition Adjustments*:

- A $4.8 million understatement of loss, for the year ended December 31, 2017, due to incorrect recognition of revenue of $6.4 million and related cost of revenue of $1.6 million in 2017 related to a multiple element arrangement that included a software license where vendor specific objective evidence (VSOE) of fair value was not established for the undelivered elements of the arrangement under the previous revenue recognition guidance in ASC 985-605. This error resulted in a $6.4 million understatement of deferred revenue and a $1.6 million understatement of prepaid expenses and other current assets as at December 31, 2017.

- A $1.9 million understatement of revenues and understatement of cost of revenue by the same amount for the nine months ended September 30, 2019, due to incorrect application of the gross vs. net presentation guidance under ASC 606. The Company incorrectly netted the costs of rendering service from the revenue under a contract with one customer. This error had no impact on net loss.

*Cash Flows Classification Adjustments*:

- $0.1 million and $34.5 million understatement of operating cash flows and overstatement of financing cash flows, for the years ended December 31, 2018 and 2017, respectively, due to the incorrect interpretation of ASU 2016-15 (*Classification of Certain Receipts and Cash Payments*) and application on a retrospective basis upon adoption of ASU 2016-15 in 2018.

- $14.3 million, $7.5 million and $11.0 million overstatement of operating cash flows and understatement of investing cash flows, for the nine months ended September 30, 2019 and for the years ended December 31, 2018 and 2017, respectively, due to misclassification of cash flows associated with outsourced contract costs.

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*Other Adjustments*:

- In addition to the errors described above, the restated financial statements also include adjustments to correct certain other immaterial errors, including previously unrecorded immaterial adjustments identified in audits of prior years' financial statements.

Cumulatively through September 30, 2019, the restatement had the following effects on net loss (in thousands):

| | Appraisal Action Liability Adjustments | Outsourced Contract Cost Adjustments | Expense Reimbursement Adjustments | Revenue Recognition Adjustment | Other Adjustment | Tax Effect of Adjustments | Total Increase in Net Loss |
|---|---|---|---|---|---|---|---|
| Year Ended December 31, 2017 | $ 1,187 | $ — | $ — | $ 4,834 | $ — | $ (822) | $ 5,199 |
| Year Ended December 31, 2018 | 2,896 | (3,196) | 7,628 | — | 15 | (54) | 7,289 |
| Nine Months Ended September 30, 2019 | 2,457 | 5,330 | 2,304 | (1,910) | (628) | — | 7,553 |
| | $ 6,540 | $ 2,134 | $ 9,932 | $ 2,924 | $ (613) | $ (876) | $ 20,041 |

**Effects of Restatement**

The following table sets forth the effects of the restatement on affected items within our previously reported Consolidated Statements of Operations.

| (in thousands, except per share data) | | Nine Months Ended September 30, 2019 | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|---|---|
| **Revenue** | As Originally Reported | $ 1,166,841 | $ 1,586,222 | $ 1,152,324 |
| | Adjustments | 1,910 | — | (6,433) |
| | As Restated | $ 1,168,751 | $ 1,586,222 | $ 1,145,891 |
| **Operating loss** | As Originally Reported | $ (66,615) | $ (6,249) | $ (99,532) |
| | Adjustments | (5,096) | (4,447) | (4,834) |
| | As Restated | $ (71,711) | $ (10,696) | $ (104,366) |
| **Net loss** | As Originally Reported | $ (197,479) | $ (162,517) | $ (204,285) |
| | Adjustments | (7,553) | (7,289) | (5,199) |
| | As Restated | $ (205,032) | $ (169,806) | $ (209,484) |
| **Basic and diluted loss per share** | As Originally Reported | $ (1.33) | $ (1.09) | $ (2.08) |
| | Adjustments | (0.10) | (0.08) | (0.10) |
| | As Restated | $ (1.43) | $ (1.17) | $ (2.18) |

The following table sets forth the effects of the restatement on affected items within our previously reported Consolidated Statements of Cash Flows.

| (in thousands) | | Nine Months Ended September 30, 2019 | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|---|---|
| **Net cash provided by (used in) operating activities** | As Originally Reported | $ (33,639) | $ 30,457 | $ 23,455 |
| | Adjustments | (13,718) | (6,857) | 28,322 |
| | As Restated | $ (47,357) | $ 23,600 | $ 51,777 |
| **Net cash provided by (used in) investing activities** | As Originally Reported | $ (34,815) | $ (66,304) | $ (452,374) |
| | Adjustments | 14,304 | 7,552 | 10,992 |
| | As Restated | $ (20,511) | $ (58,752) | $ (441,382) |
| **Net cash provided by (used in) financing activities** | As Originally Reported | $ 39,854 | $ (1,910) | 475,727 |
| | Adjustments | (586) | (695) | (39,314) |
| | As Restated | $ 39,268 | $ (2,605) | $ 436,413 |

The adjustments made as a result of the restatement are more fully discussed in Note 3, *Restatement of Previously Issued Financial Statements*, of the Notes to Consolidated Financial Statements included in this Annual Report. To further review the effects of the accounting errors identified and the restatement adjustments, see Part II—Item 6—Selected

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Financial Data and Part II—Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Annual Report. For a description of the control deficiencies identified by management as a result of the investigation and our internal reviews, and management's plan to remediate those deficiencies, see Part II—Item 9A—Controls and Procedures.

Previously filed annual reports on Form 10-K and quarterly reports on Form 10-Q for the periods affected by the restatement have not been amended. Accordingly, investors should no longer rely upon the Company's previously released financial statements for these periods and any earnings releases or other communications relating to these periods, and, for these periods, investors should rely solely on the financial statements and other financial data for the relevant periods included in this Annual Report. See Note 20, Unaudited Quarterly Financial Data, of the Notes to the Consolidated Financial Statements in this Annual Report for the impact of these adjustments on each of the quarterly periods in fiscal 2018 and for the first three quarters of fiscal 2019. Quarterly reports for fiscal 2020 will include restated results for the corresponding interim periods of fiscal 2019. All amounts in this Annual Report on Form10-K affected by the restatement adjustments reflect such amounts as restated.

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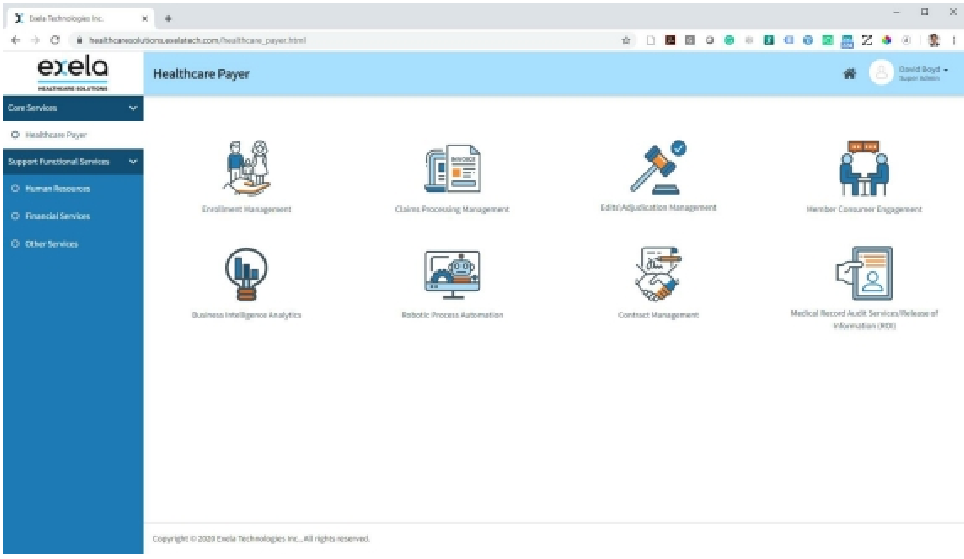
# PART I

## ITEM 1. BUSINESS

Exela is a business process automation leader leveraging a global footprint and proprietary technology to help turn the complex into the simple through user friendly software platforms and solutions that enable our customers' digital transformation. We have decades of expertise earned from serving many of the world's largest enterprises, including over 60% of the Fortune® 100 and in many mission critical environments across multiple industries, including banking, healthcare, insurance and manufacturing. For the fiscal year ended December 31, 2019, we generated $1.56 billion of revenue from over 4,000 customers throughout the world.

Our solutions and services touch multiple elements within a customer's organization. We use a global delivery model and primarily host solutions in our data centers, on the cloud or directly from our customers' premises. Our approximately 22,700 employees as of December 31, 2019 operate from business facilities in 23 countries, with some of our employees co-located at our customers' facilities. Our solutions are location agnostic, and we believe the combination of our hybrid hosted solutions and global work force in the Americas, EMEA and Asia offers a meaningful differentiation in the industries we serve and services we provide.




*Exela's portals provide on-demand mult*
*i industry and departmental solutions and services alongside industry specific solutions.*

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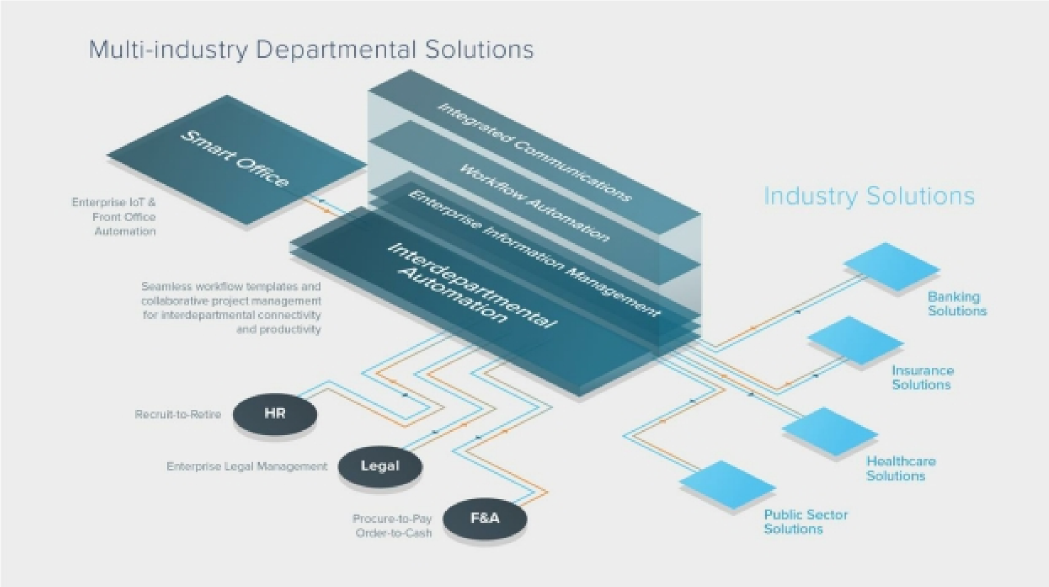
We will continue to further expand our solutions and services for the industries we serve, with a focus on connecting the front, middle and the back office. We believe this positions us as one of the few companies that can offer solutions and services that span from multi-industry departmental solutions to industry specific solutions.




## Our Solutions and Services

Our suite of offerings combines platform modules for finance and accounting services, enterprise information management, robotic process automation, digital mailroom, business process management and workflow automation, visualization and analytics, contract management and legal management solutions, and integrated communication services which contribute to revenues across our organization and accounting segments and also complement our core industry solutions for banking, insurance, healthcare and the public sector.

***Finance and Accounting Solutions (F&A)***

Exela offers a suite of finance and accounting ("F&A") solutions addressing the payments lifecycle from procure to pay ("P2P") to order to cash ("O2C"). We use our own technology and our global operations to deliver these solutions.

Our P2P services can be integrated with our digital mail room technology, which expands our ability to support existing data types and formats. In effect, both digital and analog items can enter this information stream. The process kicks off by opening a requisition, once approved it moves to procurement to solicit bids from an approved supplier network. We believe that supporting our customers by making available our supplier network can be a key differentiator in enabling a complete P2P solution. Our P2P platform also records receipt of goods and invoices and performs three way matching digitally. Exceptions are processed by our employees, and once approved, we record the purchase in a customer's ERP system, so it can be paid. We then use our system to generate and deliver a paym

ent file in the format the bank needs so that a payment can be processed. Some of our customers also authorize us to process the payment on their behalf.

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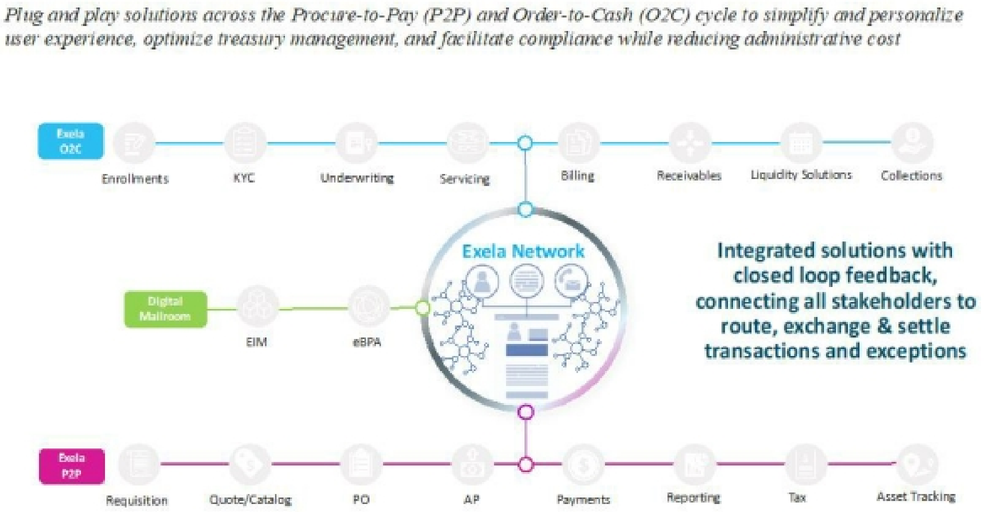


Our O2C solutions enable consolidation of inbound payment channels and data continuity to drive digital adoption and enhance treasury management, including integrated receivables dashboards, multi-channel bill presentment and payment, reconciliation, exception and dispute management, aging analytics, collections management and targeted engagements. The full process includes fulfillment of a customer order, raising an invoice in accordance with customer contracts, accounts receivable management and collections.

Our F&A services include spend analytics and data mining tools for financial planning and analysis to support reporting and audit functions, interchanges and robotics providing automation of ERP entries and regulatory reporting and fixed asset management.

***Enterprise Information Management (EIM)***

Exela's enterprise information management solutions ingest and organize large amounts of data across many data types and formats and store the information in cloud enabled proprietary platforms. We also gather transactional data from enterprise systems for similar hosting. The collected, extracted data is used to complete a process, and is then made available to our customers and their end-consumers for an agreed upon period. We derive revenue for such services, hosting and access.

Our EIM systems host billions of often mission critical records for our customers and the total number continues to rise. As an example of a large deployment of our EIM platform, we helped enable online records access to over 48 million end-customers of a group of European savings banks for deposits, statements, and car and personal loans and mortgages. Another example of EIM deployment is in the hosting of images of healthcare records, checks and payroll taxes for many years for retrieval, compliance and internal information purposes.

We often store both digital and paper records for our customers and offer release of information services according to guidelines set by our customers. For example, we will release documents in litigation upon receipt of a valid subpoena served on our customer or in the healthcare context when a patient switches hospitals and requests access to healthcare records from their previous hospital. We provide these records in the form requested, including chain of custody information. Increasingly, these records are accessed electronically or are delivered in line with green initiatives.

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Our platforms can be integrated with customers' existing EIM systems, and our customers can benefit from being able to conduct federated searches across connected datasets, manage records in accordance with their needs and regulatory requirements, build live customer and employee profiles, and facilitate release of information and routing with control over security and permissions. We also provide business intelligence add-ons, offering summarization of data sets, dashboards and trend monitoring, relationship visualization, macro and micro drill-downs, escalation triggers and notifications.

***Exela Robotic Process Automation***

Exela has been at the forefront of using robotic process automation since 2009. Our deployment model is to use desktop automation first, and if the usage is very high, we usually migrate to server level automation. We have built up a large library of rules by industry and by customer. While we have been using robotic solutions as part of our internal processes for years, only recently have we made them available to our customers. Our domain experts and analysts can either use an existing bot, modify one or create new ones using our design studio. Our robotic solutions are available as programmable robots with a rules library for a specific industry or feature, or as an enterprise license or on a per user per month basis.

***Digital Mailroom Solutions***

Exela is one of the leading global providers of digital mailroom solutions. Our digital mailroom solutions rely on proprietary technology, use our own or a client's facilities and process a significant number of transactions daily. We use proprietary high-speed scanners as well as support most major scanners. Our end-to-end digital mail room features ingestion from many sources – paper, fax, electronic, emails and other digital data. We recently added recorded voice, image and video ingestion channels. This solution additionally offers shipping and receiving packages with digital receipt, delivery and routing to our intelligent lockers.

We own several classification engines that we de

ploy for information processing, including unattended digital repositories, for example unattended email boxes to identify content and route it to the appropriate member of an organization. Exela offers its digital mail room for enterprise wide deployment to captive mailrooms of our customers, mail rooms outsourced to both Exela and others, and for business locations where there is no dedicated mail room, such as a front desk. Our customers can see their information across the enterprise from a single platform. Our digital mail solutions are available as SaaS, BpaaS or enterprise licenses and we often handle the entire mail operation for a client.

***Business process management and workflow automation***

Exela has built extensive proprietary workflow automation platforms for business process management across several industries and regions. Our platforms are designed to have intuitive user interfaces with drag & drop configuration enabling analysts a certain amount of customization. Our platforms use our EIM engines by default, are designed to integrate with popular database and enterprise systems and are offered across three user categories:

- **Enterprise class**, hosted on premises. Suitable for 10,000 or more users and 10,000 or more tasks or process automations. Over 10,000 of our employees use this every day to perform mission critical work for our customers in the Americas, EMEA and Asia.

- **Interdepartmental class** workflow automation is ideal to bring structure and collaboration across departments. Over 2,500 of our employees globally use this platform to collaborate with each other and their individual work management. The platform is designed to integrate with other industry leading platforms to create a comprehensive collaborative experience. We intend to offer this to our customers in the future.

- **Case-management** workflow automation platform available as a shrink wrap version for building custom workflows. One can use our library of workflows, customize them or build one from scratch for purposes of case management only. Customers can buy enterprise licenses of this platform, or on a SaaS basis and build their own workflows.

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Exela provides visualization and analytics capabilities within its platforms to provide actionable intelligence tied to collaboration and task management. Configurable dashboards enable users to quickly consolidate and organize disparate data sources through intuitive interfaces. Users can also build their own dashboards with dynamic drilldown options and alerts, link data to managers, and launch action items in pursuit of optimization and issue resolution. By providing analytics tied to actionable tasks, we can help drive optimization to enhance profitability and connectivity. For example, users can create visualization of volume trends and set triggers upon statistical thresholds, sending SMS alerts to managers to adjust their downstream capacity planning, if trends are not in line with set thresholds.

While we offer reporting and analytics on the scope of work processed through operations, we also provide our customers the capability to consolidate various data streams into comprehensive dashboards to enhance the business intelligence functions of an organization, including providing real-time visibility to revenue, cost, profitability and cash flow as well as process monitoring, KPI tracking, and actionable alerts.

We believe providing analytics modules complement our services and solutions, creating a superior user experience, and reducing the need for other third-party tools by centralizing business management within Exela's platforms. By enabling users to share dashboards across their organization, we believe additional users will adopt Exela platforms and increase our penetration into the front-end applications across an enterprise.

***Enterprise Legal Management***

Exela provides a contract management system to streamline execution, organization, and data management of large volumes of contracts. We utilize natural language processing and machine learning to extract key terms within unstructured formats and complex content, providing variance analysis, summary tables, and automated organization. Users can easily find important data points in contracts, and quickly analyze large volumes of language variations across format types. The extracted data can then be used to connect to existing systems and ERPs and serve as inputs to business operations, such as accounting and billing processes, financial planning and analysis, and regulatory reporting, enabling real-time audit and automated alerts for deviations from contract parameters. By automating key term extraction, our contract management system enables large volumes of contracts to be analyzed quickly and enables processes such as billing or automatic reminders for significant dates. We believe that Exela's ability to cost effectively provide high accuracy transactional operations with automated validations creates a competitive advantage against those relying on manual processes and discrete sampling.

Exela can also provide a digital signature system to streamline collaboration, approvals and execution of contracts. We deploy a secure, hosted environment to request and execute signatures and exchange contracts and documents across individuals or groups. Our platforms enable multiple signature execution with routing through approval hierarchies, while providing transparency to the status and tracking of comments and edits. Upon execution, documents are stored electronically for secure archiving and retrieval.

Furthermore, Exela offers a suite of enterprise l

egal management solutions and services that streamline and automate legal department processes to rationalize costs and drive productivity. Solutions and services range from preventative remediation, identifying risks such as overcharges, discrimination, and data breaches and proactively providing restitution, eDiscovery, word processing and contract management using automated summarization and metadata extraction along with cognitive search enabled by natural language processing; and records management.

***Integrated Communications***

Exela's comprehensive multi-channel integrated communications solutions help customers communicate with other businesses or customers. This suite of solutions links through many channels, for example, email, print and mail, SMS, web, voice, and chat. Exela solutions and services can also include design and marketing and selection of optimal engagement and least cost routing for mission critical communications for example, bills, statements, enrollments, customer support, targeted marketing, mass notifications, reprographics, and regulatory notices.

We also work with our customers as a digital migration partner to improve user experience while helping to reduce and even eliminate inefficient, wasteful communications. We use proprietary discovery techniques and analytics

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in addition to service specific technology to propose optimal channel and content. Our employees can also generate personalized messages, customized promotions, incentives, esc

alations, and resolutions.

***Exela Smart Office***

In the second half of 2019, we launched a group of solutions that complement our existing offerings, labeled Exela Smart Office℠ ("Smart Office"). Smart Office seeks to improve employee and visitor experiences while optimizing facility management efficiency thereby contributing towards corporate sustainability standards. Smart Office is our enterprise IoT, which helps transform the front-office, energy and facilities management, logistics and fulfillment for our customers, and provides on-demand services with connected devices to facilitate green initiatives, reduce waste, and ultimately enhance the employee and visitor experience. For example, our space management software uses sensors to detect facility utilization, which enables optimized space and energy usage and provides mobile workers directions to available work spaces, while our Visitor Management System and lobby kiosk can be deployed to regulate facility access. Our Intelligent Lockers are available for visitor day storage of luggage and to provide a secure chain of custody for parcels and mail for employees using our hosted shipping and receiving tools. There is also a Digital Mailroom offering part of Smart Office, which segregates white mail and aggregates, classifies and routes searchable multi-media mail to the appropriate recipient.

***Recruit-to-Retire (HR)***

During 2019, we moved the majority of our employees to our proprietary human capital management platform. This platform integrates with our existing offerings and is designed to help an enterprise and its employees manage the data and processes relevant to the entire employment lifecycle from recruitment to retirement. By providing digital management and data tracking for human capital, we enable reduction in administrative overhead and enhanced management of human capital productivity while improving the overall experience. Our hum

an capital management platform is now available for sale.

**Industry Specific Services and Solutions**

While the above described solutions and services can be leveraged across industries, over the years we have also developed services and solutions for specific industries which help our customers around the world better manage their liquidity. The most significant are summarized below.

***Banking and Financial Industry Solutions and Services***

Our banking and financial solutions consist of payment, mortgage, enrollment, lending and loan management, governance and information management solutions and accounted for approximately 25% of 2019 revenue. Exela's payment operations and treasury management solutions are designed to improve digital engagement and transaction speed and compliance. We also provide mobile and remote deposit technologies to our banking and financial services customers.

We are one of the largest processors of payments. We handle many payment channels in addition to checks and credit cards including, automated clearing house (ACH), Faster Payments in UK and Ireland, Single European Payment Area (SEPA), Bank Giro in the Nordics and other payment networks. We perform these services on behalf of banks or their customers. We believe the regulatory environment in many geographies is beginning to allow non-bank payment processors to connect to the payment networks directly such that one can verify funds, confirm payee and settlement of payments and are actively pursuing a PSP license in the European Union to further expand our payment offerings.

We have extensive experience and technology that we have built over dec

ades and that are in use to serve many banks and companies to process the payments related to both business to business ("B2B") and business to consumer ("B2C") transactions. We develop, use, and sell proprietary integrated receivables processing technology, providing our customers with a solution that consolidates B2B and B2C transactions across many payment channels into a single platform. We plan to offer this as a branded or as a private label solution to our banking customers giving them the

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ability to offer advanced treasury solutions with insights from accounts receivable, customer credit worthiness, payment habits, soft collections and delinquent collections.

We add value by automating manual, repetitive processes to improve speed and provide cost efficiencies within a compliant mortgage and lending completion process. Our proprietary mortgage and loan management solutions enable lenders to originate loans and service them with greater efficiency. Our platforms also enable invoice discounting, factoring, payables financing and leverage automation and integration such that traditional lenders and alternate lenders, including peer to peer lenders can provide liquidity to underserved borrowers.

Our key focus is user experience, enabling faster decisions, and facilitating optimal allocation of capital and risk management for our customers. By using our solutions and services, we believe our banking and financial services customers can better manage their lending book and at a lower cost of ownership.

Our banking solutions help organizations transform compliance, know your customer, anti-money laundering and confirmation of payee checks into a competitive advantage, including accelerated digital on-boarding, complex process automation, screening and monitoring and predictive analytics. Exela can provide these services as an end-to-end solution or as an augmentation of existing banking processes, as a technology license or through our employees to manage a component or an entire process.

***Healthcare Industry Solutions and Services for Insurance Companies and Healthcare Providers***

Exela's healthcare industry customers include commercial and government sponsored healthcare plans, hospital networks and university hospital systems and large medical distribution systems and pharmacy networks, and accounted for approximately 23% of total revenues in 2019. We serve our customers using our proprietary technology and for some customers combined with their systems.

We bundle our core solutions and services with a suite of healthcare payer specific services such as end-to-end processing of complex transactions, enrollments and credentialing, claims processing, adjudication and payment operations. We specialize in transactions that require multiple layers of validation, supporting documentation processing, reconciliation, and management of exceptions.

We host a proprietary platform that connects providers and payers for claims submissions, acknowledgements or denials of payments and many other interactions covering the complete lifecycle of a claim, which enables a more satisfactory engagement between payers and providers and contributes to improved access to health care and lower administrative costs. Our payer customers often encourage their contracted providers to adopt our digital platforms for overall reduction of claim processing time and cost. We also provide our healthcare provider customers with many services including computer assisted coding, audit and recovery of underpayments, denial and grievances, release of information, and electronic health records. We plan to offer our mobile and web enrollment solutions, appointment scheduling and locating providers with ratings, also include insurance verification, cost of visit estimates and visit pre-approval. We provide some of these services and features on a stand-alone basis and in the future, we plan to offer a more integrated solution.

## Insurance Industry Solutions and Services

Exela offers a suite of insurance industry solutions aimed at providing digital engagements and rapid integration of disparate systems and silos. Our insurance industry solutions accounted for approximately 11% of total revenues in 2019. We provide applications and services to facilitate automation and digital transformation for underwriting and enrollments, premium payments, claims submission, first notification of loss, fraud, waste & abuse monitoring and integrated communications. Our solutions are aimed at improving the customer experience by providing digital pathways and transparency with web portals and integrated communications, while helping to improve quality and risk management.

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***Public Sector***

We provide technology and solutions to public sector customers. Our public sector solut

ions accounted for approximately 8% of total revenues in 2019. Our mission is to help our public sector customers with their digital journey and meet their objectives of better serving the public. Exela solutions are primarily deployed across pension benefits and administration, tax return processing, payment operations, inter-agency information management and communications with citizens and employees of government institutions.

Our solutions have evolved over time to include digital capabilities and are designed to reduce taxpayer refund waiting time, decrease the potential for tax fraud, and provide reports and data to the relevant stakeholders. Exela also has the infrastructure in place to process payments, perform collection services, handle overflow taxpayer calls, provide e-filing for individual income tax, generate outbound taxpayer notification (traditional and/or electronic notifications), and host other developed solutions.

***Commercial, Tech, Manufacturing, and Legal Industries Solutions and Services***

For the commercial, technology, manufacturing and legal industries, we primarily provide multi-industry solutions described earlier. For 2019, our commercial industry revenue accounted for approximately 21% of total revenues, our revenues from the technology and manufacturing industry accounted for approximately 7%, while our revenue from the legal industry accounted for approximately 5%.

Historically, the majority of revenue for the above-mentioned industries was generated in the Americas, though we believe there is significant

expansion opportunity throughout EMEA and the Asian markets. As we have made investments in our global scale, technology platforms, and business strategy, some of our multi-national customers have expanded our services to other geographies to leverage our international footprint. We believe our value proposition as a single source provider with global platforms and location agnostic operations, positions us as a differentiated partner to our multi-national customers.

With the launch of Smart Office, we have been targeting technology companies in our initial go-to-market approach. We believe technology companies have a heavy focus on employee experience to attract top tier talent, and they often serve as early adopters for new offerings setting trends across other industries, and we believe they will serve as strong references as we expand our Smart Office growth strategy.

***Overview of Revenues***

Our business consists of three reportable segments:

- ***Information and Transaction Processing Solutions ("ITPS").*** The ITPS segment is our largest segment, with $1,230.7 million of revenues for the fiscal year ended December 31, 2019, representing 79.0% of our revenues. We generate ITPS revenues primarily from a transaction-based pricing model for the various types of volumes processed, licensing and maintenance fees for technology sales, and a mix of fixed management fee and transactional revenue for document logistics and location services.

- ***Healthcare Solutions ("HS")***. The HS segment generated $256.8 million of reven

  ues for the fiscal year ended December 31, 2019, representing 16.5% of our revenues. We generate HS revenues primarily from a transaction-based pricing model for the various types of volumes processed for healthcare payers and providers.

- ***Legal & Loss Prevention Services ("LLPS").*** The LLPS segment generated $71.3 million of revenues for the fiscal year ended December 31, 2019, representing 4.5% of our revenues. We generate LLPS revenues primarily based on time and materials pricing as well as through transactional services priced on a per item basis.

Additional financial information for our three business segments is included in Note 19 within our consolidated financial statements.

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We provide services to our customers on a global basis. In 2019, our revenues by geography were as follows: $1,285.6 million in the United States (82.3% of total revenues), $248.5 million in EMEA (16.0% of total revenues), and $27.2 million from the rest of the world (1.7% of total revenues). We present additional geographical financial information in Note 19 within our consolidated financial statements.

Our revenues can be affected by various factors such as our customers' demand pattern for our services. These factors have historically resulted in lower revenues in the third quarter and higher revenues in the fourth quarter. Backlog is not a metric that we use to measure our business.

**History and Development of Our Company**

Exela is a Delaware corporation that was formed through the strategic combination of SourceHOV Holdings, Inc. ("SourceHOV") a leading global transaction processing company, and Novitex Holding, Inc. ("Novitex"), a cloud-based document outsourcing company, pursuant to a business combination agreement dated February 21, 2017. Formerly known as Quinpario Acquisition Corp. 2 ("Quinpario"), Exela was originally formed as a blank check company on July 15, 2014 and completed its initial public offering on January 22, 2015. In conjunction with the completion of the Novitex Business Combination in July 2017, Quinpario was renamed "Exela Technologies, Inc." Exela began trading under the ticker "XELA" on the Nasdaq Stock Market on July 13, 2017.

The Novitex Business Combination was accounted for as a reverse merger for which SourceHOV was determined to be the accounting acquirer. The acquisition of Novitex was accounted for using the acquisition method. As a result, the financial information for 2017 presented in this Annual Report is not pro forma (unless labeled as such); it includes the financial information and activities for SourceHOV for the entire year ending December 31, 2017, but only reflects the financial information and activities of Novitex for the period following the Novitex Business Combination from July 13, 2017 to December 31, 2017.

On April 10, 2018, Exela completed the acquisition of Asterion International Group, a well-established provider of technology driven business process outsourcing, document management and business process automation across Europe. The acquisition was strategic to expanding Exela's European business.

On November 12, 2019 we announced that our Board of Directors had adopted a debt reduction and liquidity improvement initiative ("Initiative"). This new Initiative is part of the Company's strategic priority to position the Company for long-term success and increased stockholder value.

As part of the Initiative, on January 10, 2020, certain subsidiaries of the Company entered into a $160.0 million accounts receivable securitization facility with a five year term and consummated the sale of its tax benefits consulting group on March 16, 2020. To fund the debt reduction, the Company is also pursuing the sale of certain non-core assets that are not central to the Company's long-term strategic vision, and any potential action with respect to these operations would be intended to allow the Company to better focus on its core businesses. The Company has retained financial advisors to assist with the sale of select assets. The Company expects to use the net proceeds from the Initiative for the repayment of debt, with a target reduction of $150.0 to $200.0 million. Exela has set a two-year timetable for completion of the Initiative. There can be no assurance that the Initiative or any particular element of the Initiative will be consummated or will achieve its desired result.

**Key Business Strategies**

Exela business strategy is to use its Digital Now℠ model, which aims to accelerate our customers' digital transformation through deployment of our software automation techniques, hosted within a single, cloud hosted platform. Our overarching goal is to provide highest value and lowest cost of ownership. We accomplish this by building scalable systems that are used by our employees to deliver business process automation services globally. The key elements of our growth strategy are described below:

- **Expand Penetration of Solution Stack Across Customer Base.** We seek to move up what we call "the seven layers of technology enabled solutions and services stack," climbing the value chain from discrete services to end-to-end processes through use of front-end enterprise software. We believe continued deployment of our

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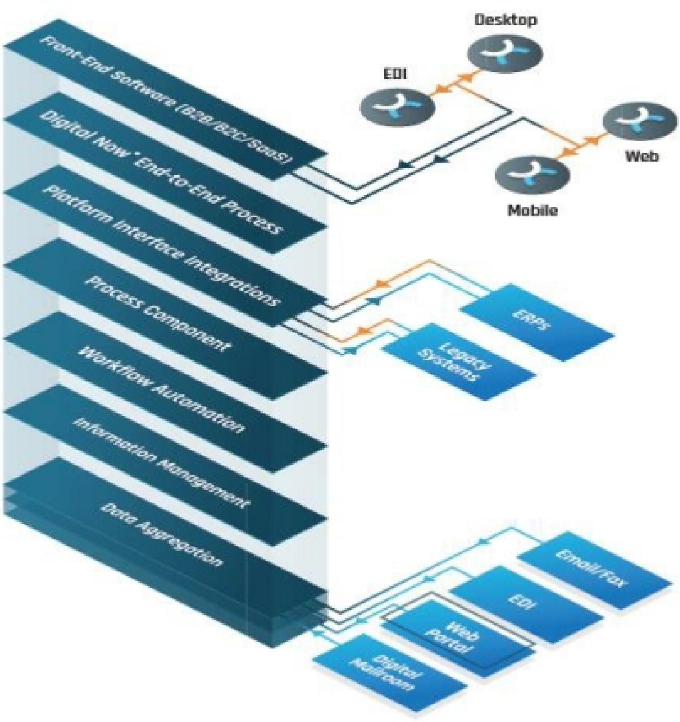
single sign on portals with on-demand applications will drive expansion of our front-end software (B2B/B2C/SaaS) and integrated offerings.

- **Layer 1 - Data Aggregation -** Host, gather, extract all types of structured and unstructured data, digital and analog
- **Layer 2 - Information Management -** Digital classifications, data enhancement and normalization driving downstream processes improvement
- **Layer 3 - Workflow Automation -** Digital connectivity and automated decisioning driving productivity and quality
- **Layer 4 - Process Component -** Operations partner for component(s) of larger process, handing off output file for downstream execution
- **Layer 5 - Platform Interface Integrations -** Exela platforms directly connected to customers' core systems, accessed through SSO and common interfaces
- **Layer 6 - Digital Now End-to-End Process -** Full cycle operations and technology for multi-channel process through execution of business outcomes
- **Layer 7 - Front-End Software (B2B/B2C/SaaS) -** Exela front end applications (branded or private label) directly interfacing with end user e

  xperience

See diagram of 7 layers of solutions below:



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- **Expand relationships with existing customers.** We intend to continue aggressively pursuing cross-selling and up-selling opportunities within our existing customer base. With an existing base of over 4,000 customers, we believe we have meaningful opportunities to offer a bundled suite of services and be a "one-stop-shop" for our customers' information and transaction processing needs. Our sales force is organized on an industry basis and utilizes solutions and relationships to better serve our customers across all levels of their organizations. As an example, we now offer a full suite of healthcare-focused solutions by bundling enrollments, policy and plan management, claims processing, audit and recovery services, payment solutions, integrated accounts payable and receivable, medical records management, and unified communication services for payers and providers.

- **Leverage BPA suite across on-site services.** Approximately 5,000 of our employees currently work at customers in an on-site capacity. We believe this on-site presence is a competitive differentiator and a valuable asset as we pursue future growth opportunities. We have been deploying our BPA software across these customer locations, and we believe that by offering our customers enhanced productivity and quality through our onsite employees, we will continue to create additional opportunities to expand our footprint and wallet share across their organization. For example, in customers where we provide underwriting support and claims processing, we can enable our onsite employees to accelerate the aggregation and analysis of datasets while also increasing accuracy and automatically flagging deficiencies using our software. By enhancing the productivity and quality of our onsite employees, we believe we will increase the demand from our customers to replicate our processes across their organization, bo

  lstering our cross-sell/up-sell initiatives. By having our BPA suite already approved and deployed within existing onsite engagements, we believe our ability to expand into new lines of business will be streamlined and accelerated.

- **Pursue new customer opportunities.** We plan to continue to develop new long-term, strategic customer relationships, especially where we have an opportunity to deliver a wide range of our capabilities and can have a meaningful impact on our customers' business outcomes. For example, we plan to dedicate resources within the legal industry in order to pursue opportunities in e-discovery and contract management services.

- **Develop additional process capabilities and industry expertise.** We will focus on developing additional process capabilities and market expertise for our core industries. We will continue to invest in technology and innovation that will accelerate the build-out of our portfolio of next-generation solutions, such as platform-based descriptive and predictive analytics services for processing flows of "Big Data" to help customers gain better insight into their processes and businesses. As an example, on behalf of our customers, we are deploying Big Data automation platforms to analyze individual consumer behavior and interaction patterns to identify opportunities for revenue enhancement and loss prevention, and configure optimal outreach campaigns to drive sales, loyalty, and profitability.

- **Pursue meaningful cost synergy opportunities and accelerate long-term profitability.** Due to similar operating infrastructures between SourceHOV and Novitex, we continue to deliver and believe we have additional opportunities across information technology, operations, facilities, and corporate functions to achieve cost savings executable as we approach three years from the closing of the Novitex Business Combination.

- **Capitalize on our enhanced scale and operating capacity.** We intend to utilize our increased global scale and brand recognition to strengthen our ability to bid on new opportunities. We plan to dedicate more resources to pursue whitespace coverage to expand our range of service offerings and pursue additional cross-selling opportunities. We will also look to use our increased scale and operations expertise to improve utilization of our assets. As an example, we have pursued a strategy of consolidating smaller regional document processing centers to our two Tier-III document processing and outsourcing centers in Windsor, Connecticut, and Austin, Texas that we call "MegaCenters," which are increasing efficiency through economies of scale. By driving utilization up from the current levels of the MegaCenters, we will benefit from high flow through margins from increased revenues with minimal incremental investment.

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**Customers**

We serve over 4,000 customers across a variety of industries, including over 60% of the Fortune® 100. Our customers are among the leading companies in their respective industries, and many of them are recurring customers that have maintained long-term relationships with us and our predecessor companies.

We have successfully leveraged our relationships with customers to offer extended value chain services, creating stickier customer relationships and increasing overall margins. Customers are increasingly turning to us due to a demonstrated ability to work on large-scale projects, past performance and record of delivery, and deep domain expertise accumulated from years of experience in key verticals. We believe, our stable base of customers and sticky, long-term relationships lead to predictable revenues.

*Industry Highlights*


We maintain a strong mix of diversified customers with low customer concentration. No customer accounts for more than 10% of 2019 revenue. The diversity of our customer base has contributed to the stability and predictability of our revenue streams and cash flows. We have been able to effectively balance our customer mix and reduce dependency on any single customer or vertical by penetrating a diverse set of end markets.

**Research and Development**

Our ability to continue to compete successfully depends heavily upon our ability to ensure a timely flow of competitive products, services and technologies to the marketplace while also leveraging our domain expertise to demonstrate our understanding in implementing solutions across the industries we serve. Through regular and sustained investment, licensing of intellectual property and acquisition of third-party businesses and technology, we continue to develop new knowledge platforms, applications and supporting service bundles that enhance and expand our existing suite of services.

Our seven-layer technology model requires us to continue to harness our capabilities in each layer and the ultimate measure of success will be how many customers are in each layer. We believe that a greater customer concentration in the top layers will reflect the success of our R&D strategy. Additional financial information regarding our R&D expense is included in Note 2 within our consolidated financial statements.

**Intellectual Property**

We deploy a combination of internally developed proprietary knowledge platforms, applications and generally available third-party licensed software as part of our scalable and flexible solutions and services. We believe our intellectual property is our competitive strength.

Our platforms aim to enhance information management and workflow processes through automation and process optimization to minimize labor requirements or to improve labor performance. Our decisioning engines have

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been built with years of deep domain expertise, incorporating hundreds of thousands of customer and industry specific rules which enable efficiency and lowers cost preparation and decisioning of transactions. Our business processes and implementation methodologies are confidential and proprietary and include trade secrets that are important to our business. We own a variety of trademarks and patents, which are registered or pending.

We regularly enter into nondisclosure agreements with customers, business partners, employees, and contractors that require confidential treatment of our information to establish, maintain and enforce our intellectual property rights. Our licensed intellectual properties are generally governed by written agreements of varying durations, including some with fixed terms that are subject to renewal based on mutual agreement. Generally, each agreement may be further extended, and we have historically been able to renew most existing agreements before they expire. We expect these and other similar agreements to be extended so long as it is mutually advantageous to both parties at the time of renewal.

**Competition**

We believe that the principal competitive factors in providing our solutions include proprietary platforms, industry specific knowledge, quality, reliability and security of service, and price. We are differentiated competitively given our scale of operations, reputation as a trusted partner with deep domain expertise, innovative solutions, and highly integrated technology platforms that provide customers with end-to-end services addressing many aspects of their mission-critical operational processes. We continue to integrate best practice delivery processes into our service-delivery capabilities to improve its quality and service levels and to increase operational efficiencies. The markets in which we serve are competitive with both large and small businesses, as well as global companies:

- Multi-national companies that provide data aggregation, information management and workflow automation services, such as IBM, EMC, OpenText, Hyland, Iron Mountain, Canon, and Ricoh;
- Consulting, discrete process and platform integration service providers such as Fiserv, Jack Henry, FIS, Black Knight Financial, Optum, Broadridge Financial Solutions, Computershare, Cognizant, and Accenture;
- Platform and front-end software providers, such as Workday, Salesforce, Blackline and Pega;
- Multi-shore BPO companies, such as Genpact, Cognizant, Exl service, Conduent, Wipro, and WNS; and
- Smaller, niche service providers in specific verticals or geographic markets.

**Regulation and Compliance**

We handle, directly or indirectly through customer contracts and business associate agreements, a significant amount of information, including personal and health-related information, which results in our being subject to federal, state and local privacy laws, including the Gramm-Leach-Bliley Act, HIPAA and the HITECH Act of 2009. Further, we are subject to the local rules and regulations, including those relating to the handling of information, in the other countries in which we operate. In addition, services in our LLPS segment, though not directly regulated, must be provided in a manner consistent with the relevant legal framework. For example, our bankruptcy claims administration services must be provided in accordance with the requirements and deadlines of the United States Bankruptcy Code and Federal Rules of Civil Procedure. In addition, some of our customers are subject to regulatory oversight, which may result in our being reviewed from time to time by such oversight bodies. Further, as a government contractor, we are subject to associated regulations and requirements.

Changes to existing laws, introduction of new laws, or failure to comply with existing laws that are applicable to us may subject us to, among other things, additional costs or changes to our business practices, liability for monetary damages, fines and/or criminal prosecution, unfavorable publicity, restrictions on our ability to obtain and process

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information and allegations by our customers and customers that we have not performed our contractual obligations, any of which may have a material adverse effect on profitability and cash flow.

*Privacy and Information Security Regulations*

Data privacy laws and regulations in the U.S. and foreign countries apply to the access, collection, transfer, use, storage, and destruction of personal information in connection with our services. In the U.S., our financial institution customers are required to comply with privacy regulations imposed under the Gramm-Leach-Bliley Act, in addition to other regulations. As a processor of personal information in our role as a provider of services to financial institutions, we are bound by similar limitations on disclosure of the information received from our customers as apply to the financial institutions themselves. We also perform services for healthcare companies and are, therefore, subject to compliance with laws and regulations regarding healthcare information, including HIPAA in the U.S. We also perform credit-related services and agree to comply with payment card standards, including the PCIDSS. In addition, federal and state privacy and information security laws, and consumer protection laws, which apply to businesses that collect or process personal information, also apply to our businesses.

Privacy laws and regulations may require notification to affected individuals, federal and state regulators, and consumer reporting agencies in the event of a security breach that results in unauthorized access to, or disclosure of, certain personal information. Privacy laws outside the U.S. may be more restrictive and may require different compliance requirements than U.S. laws and regulations and may impose additional duties on us in the performance of our services.

There has been increased public attention regarding the use of personal information and data transfer, accompanied by legislation and regulations intended to strengthen data protection, information security and consumer and personal privacy. The law in these areas continues to develop and the changing nature of privacy laws in the U.S., the European Union (“E.U”) and elsewhere could impact our processing of personal information of our employees and on behalf of our customers. In the E.U. the comprehensive General Data Privacy Regulation (the "GDPR") went into effect in May 2018. The GDPR has introduced significant privacy-related changes for companies operating both in and outside t

he EU. In the U.S., California has adopted the California Consumer Privacy Act, which went into effect on January 1, 2020, and several states are considering adopting similar laws imposing obligations regarding the handling of personal information. While we believe that we are compliant with our regulatory responsibilities, information security threats continue to evolve resulting in increased risk and exposure. In addition, legislation, regulation, litigation, court rulings, or other events could expose us to increased costs, liability, and possible damage to our reputation.

**Employees**

The continued success of our business is driven by our people. Our senior leadership team has extensive experience within the larger BPO as well as the BPA industries. As we were formed through a series of acquisitions, we have retained an experienced and cohesive leadership team. The combination of our employees with our technology is the backbone of our ability to provide holistic solutions designed to meet the rapidly evolving needs of our customers.

As of December 31, 2019, we had approximately 22,700 total employees, of which approximately 1,000 are part-time employees. We have a global workforce with a majority of our employees located in Americas and EMEA, and the remainder located in India, the Philippines and China. Our employee count fluctuates from time to time based upon the timing and duration of our engagements. We consider our relationship with our employees to be good.

We locate our operation centers in areas where the value proposition it offers is attractive relative to other local opportunities, resulting in an engaged educated multi-lingual workforce that is able to make a meaningful global contribution from their local marketplace. We offer our employees a focused set of training programs to increase their skills and leadership capabilities with the goal of creating a long-term funnel of talent to support the Company's continued growth. Additionally, our proprietary platforms enable rapid learning and facilitate knowledge transfer among employees, reducing training time.

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**Executive Officers**

The following table sets forth information concerning our executive officers as of June 8, 2020:

| Name | Age | Position |
|---|---|---|
| **Par Chadha** | 65 | Executive Chairman |
| **Ronald Cogburn** | 64 | Chief Executive Officer |
| **Shrikant Sortur** | 47 | Chief Financial Officer |
| **Suresh Yannamani** | 55 | President |
| **Mark Fairchild** | 60 | President, Exela Smart Office |
| **Srini Murali** | 47 | President, Americas and APAC |
| **Vitalie Robu** | 48 | President, EMEA |

***Par Chadha*** is our Executive Chairman and is the founder, Chief Executive Officer and Chief Investment Officer of HGM, a family office, formed in 2001, and was the principal stockholder of SourceHOV immediately prior to the Novitex Business Combination. Mr. Chadha also served as Chairman of SourceHOV from 2011 until the closing of the Novitex Business Combination and as Chairman of our Board of Directors from the closing of the Business Combination until March 27, 2020 when he became our Executive Chairman. Mr. Chadha brings over 40 years of experience in building businesses in the Americas, EMEA and Asia, including execution of mergers and acquisitions, integration of businesses and public offerings. Mr. Chadha is a co-founder of Rule 14, LLC, a leading big data mining and automation company formed in 2011, and during his career, Mr. Chadha has founded or co-founded other technology companies in the fields of metro optical networks, systems-on-silicon and communications. Through HGM, Mr. Chadha previously participated in director and executive roles in joint ventures with major financial and investment institutions, including Apollo Global Management, Inc., as well as other portfolio companies of HGM, and currently holds and manages investments in evolving financial technology, health technology and communications industries. Since 2005, Mr. Chadha has served as a Director of HOV Services Limited, a company listed on the National Stock Exchange of India, acting as its Chairman from 2009 to 2011. Mr. Chadha holds a B.S. degree in Electrical Engineering from Punjab Engineering College, India, and completed graduate-level coursework in computer science at the Illinois Institute of Technology**.**

***Ronald Cogburn*** is our Chief Executive Officer and served as Chief Executive Officer of SourceHOV from 2013 until the closing of the Novitex Business Combination. Mr. Cogburn also serves on our Board of Directors. Mr. Cogburn has been part of companies that were predecessors to SourceHOV since 1993, bringing over 30 years of diversified experience in executive management, construction claims consulting, litigation support, program management project management, cost estimating, damages assessment and general building construction. Mr. Cogburn has also been a principal of HGM since 2003. Prior to his role as Chief Executive Officer of SourceHOV, Mr. Cogburn was SourceHOV's President, KPO from March 2011 to July 2013. Prior to this role, Mr. Cogburn was the President of HOV Services, LLC from January 2005 to September 2007, providing executive leadership during the company's growth to its IPO on the India Stock Exchange in Sep

tember 2006. Mr. Cogburn has a BSCE in Structural Design/Construction Management from Texas A&M University and is a registered Professional Engineer.

***Shrikant Sortur*** is our Chief Financial Officer and served as Executive Vice President, Global Finance from the Novitex Business Combination in 2017 until May 15, 2020. Mr. Sortur served as Senior Vice President, Global Finance of SourceHOV from 2016 until the closing of the Novitex Business Combination. He was responsible for SourceHOV's finance and accounting groups and led financial operations, activities, plans and budgets. Mr. Sortur's career spans more than 19 years of varied experience in financial management, accounting, reporting, and lean operations. Mr. Sortur served in other management roles in predecessor companies to SourceHOV from 2002 until the closing of the Novitex Business Combination. Mr. Sortur also acted as Vice President of Finance of SourceHOV from June 2015 to May 2016. Mr. Sortur acted as Director of Financial Planning and Analysis, TPS from January 2014 to June 2015. Prior to this role, Mr. Sortur was the Director of Financial Planning and Analysis, North America Operations from January 2012 to December 2013. Mr. Sortur acted as Controller for HOV Global from January 2009 to December 2011. Mr. Sortur was a Senior Accounting Manager for HOV Services, LLC / Lason, Inc. from May 2004 to December 2008 and worked for the SourceHOV group as a Manager, Finance & Accounts for Lason India Ltd. from December 2002 to May 2014. From March 1999 to December 2002, Mr. Sortur served as General Manager, Finance at SRM Technologies, a business

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solutions and technology provider specializing in software design and development, systems integration, web services, enterprise mobilization, and embedded solutions development. From June 1997 to February 1999, Mr. Sortur served as Junior Manager, Finance and Accounting for S

teel Authority of India, a large state-owned steel making company based in New Delhi, India. Mr. Sortur graduated from Osmania University with a bachelor's degree in accounting and is a Certified Public Accountant (CPA), Chartered Accountant (CA), and Certified Management Accountant (CMA).

***Suresh Yannamani*** is our President and served as President, Americas of SourceHOV from 2011 until the closing of the Novitex Business Combination, and has been a part of companies that were predecessors to SourceHOV from 1997 until the closing of the Novitex Business Combination. Mr. Yannamani oversees the sales and operations and plays a large part in scaling the transaction processing solutions practice and enterprise solution strategy for healthcare, financial services and commercial industries. Mr. Yannamani was also President of HOV Services, LLC from 2007 to 2011, serving customers in the healthcare, financial services, insurance and commercial industries. Mr. Yannamani was the Executive Vice President of BPO services for Lason from 1997 to 2007 prior to its acquisition by HOV Services, LLC. Mr. Yannamani also served in management roles at IBM from 1995 to 1997, managing the design, development, and implementation of financial management information systems for the public sector and worked for Coopers & Lybrand as a consultant in public audits from 1992 to 1994. Mr. Yannamani has a bachelor's degree in Chemistry from the University of London and holds an MBA from Eastern Michigan University.

***Mark Fairchild*** is our President, Exela SmartOffice and served as President of Exela Enterprise Solutions from the Novitex Business Combination until January 2019 and prior to that served as President, Europe, of SourceHOV from the merger of BancTec and SourceHOV in 2014, having served in management roles at BancTec since 1985. With more than 30 years of executive experience in the financial services industry, Mr. Fairchild specializes in global account management, transaction processing services, software solutions and hardware technology products. In 2005, Mr. Fairchild was appointed Chief Technology Officer of BancTec and was responsible for the company's software and hardware products, manufacturing and internal IT services until 2014. Prior to this role, Mr. Fairchild acted as Vice President for International Operations of BancTec from 2001 to 2005 and VP of European Operations from 1998 to 2001. In his role as International Systems Director from 1991 to 1998, Mr. Fairchild led the European software teams, implementing payment platforms throughout the region. As Director of Engineering of BancTec from 1989 to 1991, Mr. Fairchild led the research and development team that introduced a new high-speed digital image processing system that formed the base of BancTec's ImageFIRST product portfolio. Mr. Fairchild joined BancTec as a Project Manager, a position he held from 1985 to 1986. He began his career as a software developer at British Aerospace, where he worked from 1981 to 1985. Mr. Fairchild graduated with honors from Manchester University with a bachelor's degree in aeronautical engineering and holds an MBA from London Business School.

***Srini Murali*** is our President, Americas and APAC and served as Chief Operating Officer Americas and APAC from the Novitex Business Combination until January 2019. He is responsible for all sales, operations and business strategy functions across the Americas and Asia Pacific. Prior to the Novitex Business Combination, Mr. Murali served as Senior Vice President, Operations for the Americas and APAC regions for SourceHOV, creating global operating strategies, developing client relationships, and overseeing compliance. Mr. Murali has been a part of predecessor companies to SourceHOV since 1993. During his tenure, Mr. Murali has held analysis, product development, IT, and operational roles. In 2010, Mr. Murali took on a broader scope of responsibility as SourceHOV's Senior Vice President of Global Operations and IT. Mr. Murali has served in executive-level leadership roles at companies that preceded SourceHOV since 2007, when he was appointed Vice President of IT and Technology. Prior to these management roles, Mr. Murali served as Director of Information Technology for Lason from 2002 to 2007, and as an Application Development Manager for Las

on from 1998 to 2002. Before joining Lason, Mr. Murali worked as a Systems Engineer for Vetri Systems from 1996 to 1998. Mr. Murali graduated with a bachelor's degree in mathematics and statistics from Loyola College, Chennai, and earned an MBA from Davenport University, Michigan.

***Vitalie Robu*** is our President, EMEA and served as Chief Operating Officer, EMEA from the Novitex Business Combination until January 2019. Mr. Robu is responsible for all sales, operations and business strategy functions across Europe, the Middle East and Africa. Mr. Robu specializes in transaction processing services, technology products, and software solutions, and has over 20 years of international management experience in the private and public sectors. Prior to the Novitex Business Combination, he served as Senior Vice President, Operations for the European region of SourceHOV from 2014. From 2010 to 2014, Mr. Robu held the position of President and Executive Director of

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DataForce UK, a business process outsourcing and software provider that was part of SourceHOV. Prior to joining the SourceHOV group, Mr. Robu served as Manager of Investment and Insurance Products for Citibank EMEA in London from 2007 to 2010. Mr. Robu has degrees in International Relations from the National School for Political Studies, Bucharest and Physics from the State University of Moloves, and earned an MBA from IMD - International Institute for Management Development, Lausanne.

**Available Information**

Our website address is www.exelatech.com. We are not including the information provided on our website as a part of, or incorporating it by reference into, this Annual Report. We make available free of charge (other than an investor's own internet access charges) through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities a

nd Exchange Commission (the "SEC"). Previously filed annual reports on Form 10-K and quarterly reports on Form 10-Q for the periods affected by the restatement have not been amended. Accordingly, investors should no longer rely upon the Company's previously released financial statements for these periods and any earnings releases or other communications relating to these periods. In addition, we make available our code of ethics entitled "Global Code of Ethics and Business Conduct" free of charge through our website. We intend to post on our website all disclosures that are required by law or Nasdaq listing standards concerning any amendments to, or waivers from, any provision of our code of ethics.

The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The information contained on the websites referenced in this Annual Report is not incorporated by reference into this filing.

**ITEM 1A. RISK FACTORS**

*In addition to the other information contained in this Annual Report, the following risks impact our business and operations. These risk factors are not exhaustive and all investors are encouraged to perform their own investigation with respect to our business, financial condition and prospects.*

**Ri**

sks Related to our Business

***We have substantial indebtedness and other obligations and any failure to meet our debt service obligations or restrictive covenants would have a material adverse effect on our business, financial condition, cash flows and results of operation and could cause the market value of our Common Stock to decline.***

As of December 31, 2019, we had approximately $1.4 billion of long-term debt, excluding current maturities. In the fourth quarter of 2019, we announced a debt reduction and liquidity improvement initiative, which is part of the Company's strategic priority to position the Company to long-term success and increased stockholder value. As the first step of this initiative, the Company entered into a five year, $160.0 million accounts receivable securitization facility in January 2020, which has a lower cost of debt than the Company revolving credit facility. The Company is also pursuing the sale of certain non-core assets. While the Company seeks to repay and/or refinance a material portion of its indebtedness through this initiative, there can be no assurance that such plan will be successful in whole or in part and, even if the plan is successful, we will still have a substantial amount of indebtedness outstanding. On March 26, 2020, the Delaware Court of Chancery entered a judgment against one of our subsidiaries in the amount of $57,698,426 inclusive of costs and interest arising out of the Appraisal Action, which judgment will continue to accrue interest, until paid, at the legal rate, compounded quarterly. On May 7, 2020, we filed a motion for new trial in relation to share count. Following the Court's decision on the motion for new trial, SourceHOV has the right to appeal the judgment. However, at present the judgment has not been stayed, and we expect the petitioners to seek to enforce the judgment. If we are forced to pay the judgment (or bond the judgment pend

ing an appeal, which will likely require cash collateral), such action could have a material adverse effect on our liquidity and/or cause our lenders to take action adverse to us. Our indebtedness and other obligations could: require a substantial portion of cash flow from operations to be dedicated to servicing our indebtedness, thereby reducing our ability to use cash flow from operations to fund operations, capital expenditures, and future business opportunities; increase the risks of adverse consequences resulting from a breach of

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any indebtedness agreement, including, for example, a failure to make required payments of principal or interest due to failure of our business to perform as expected; decrease our ability to obtain additional financing for working capital, capital expenditures, general corporate or other purposes; limit our flexibility to make acquisitions; require non-strategic divestitures; increase our cash requirements to support the payment of interest; limit our flexibility in planning for, or reacting to, changes in our business and our industry; and increase our vulnerability to adverse changes in general economic and industry conditions. Our ability to make payments of principal and interest on our indebtedness and our ability to comply with financial covenants in our various debt agreements depends upon our future performance, which will be subject to general economic conditions and financial, business and other factors affecting our consolidated operations, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service our debt and meet our other cash requirements, we may be required, among other things: to seek additional financing in the debt or equity markets; to refinance or restructure all or a portion of our indebtedness; to sell certain of our assets, to the extent permitted under our indebtedness agreements; or to reduce or delay planned capital or operating expenditures. Our ability to restructure or refinance our debt will depend on the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. In addition, any such financing, refinancing or sale of assets might not be available at all or on economically favorable terms. Our inability to generate sufficient cash flow to satisfy our debt service obligations or to refinance our obligations on commercially reasonable terms could have a material adverse effect on our business, financial condition, cash flows and results of operations and could cause the market value of our Common Stock to decline.

***Our future profitability and ability to sustain positive cash flow is uncertain.***

Our future profitability depends on, among other things, our ability to generate revenue in excess of our expenses. However, we have significant and continuing fixed costs relating to the maintenance of our assets and business, including debt service requirements, which we may not be able to reduce adequately to sustain our profitability if our revenue decreases. Our profitability also may be impacted by non-cash charges such as stock-based compensation charges and potential impairment of goodwill, which will negatively affect our reported financial results. Even if we achieve profitability on an annual basis, we may not be able to achieve profitability on a quarterly basis. You should not consider prior revenue growth as indicative of our future performance. In fact, in future quarters, we may not have any revenue growth or our revenue could decline. We may incur significant losses in the future for a number of reasons and risks described elsewhere herein and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown events.

Our ability to continue to generate positive cash flow depends on our ability to generate collections from sales in excess of our cash expenditures. Our ability to generate and collect on sales can be negatively affected by many factors, including but not limited to our inability to convince new customers to use our services or existing customers to renew their contracts or use additional services; the lengthening of our sales cycles and implementation periods; changes in our customer mix; a decision by any of our existing customers to cease or reduce using our services; failure of customers to pay our invoices on a timely basis or at all; a failure in the performance of our solutions or internal controls that adversely affects our reputation or results in loss of business; the loss of market share to existing or new competitors; the failure to enter or succeed in new markets; regional or global economic conditions or regulations affecting perceived need for or value of our services; or our inability to develop new offerings, expand our offerings or drive adoption of our new offerings on a timely basis and thus potentially not meeting evolving market needs.

We anticipate that we will incur increased sales and marketing and general and administrative expenses as we continue to diversify our business into new industries and geographic markets. Our business will also require significant amounts of working capital to support our growth. We may not achieve collections from sales to offset these anticipated expenditures sufficient to maintain positive future cash flow. In addition, we may encounter unforeseen expenses, difficulties, complications, delays and other unknown events that cause our costs to exceed our expectations. An inability to generate positive cash flow may decre

ase our long-term viability.

***Our results of operations could in the future be materially adversely impacted by the coronavirus pandemic (COVID-19).***

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Our results of operations could in the future be materially adversely impacted by the coronavirus pandemic (COVID-19). We currently have two priorities: the safety and wellbeing of our employees and their families, and continuing to provide services to our customers in these unprecedented times. The global spread of the coronavirus (COVID-19) has created significant volatility and uncertainty and economic disruption. The extent to which the coronavirus pandemic impacts our business, operations and financial results will depend on numerous evolving factors that we may not be able to accurately predict, including: the duration and scope of the pandemic; governmental, business and individuals' actions that have been and continue to be taken in response to the pandemic; the impact of the pandemic on economic activity and actions taken in response; the effect on our customers and customer demand for our services and solutions; our ability to sell and provide our services and solutions, including as a result of travel restrictions and people working from home; the ability of our customers to pay for our services and solutions; and any closures of our and our customers' offices and facilities. The spread of the coronavirus has caused us to modify our business practices (including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are i
n the best interests of our employees, customers and business partners.

We provide essential services including payment processing, bills and related exceptions for the financial sector, healthcare industry, and state, federal and local governments, and have accordingly been permitted to continue operating across most of our locations in the United States and across EMEA. The majority of our employees are located in the Americas and EMEA, representing 62% of our total headcount. Our locations in China are operating at full capacity and adding more volume and headcount. Close to two thirds of our India operations, totaling 4,900 employees, have transitioned to work from home and the remainder of volume is transitioning to work from home or is being routed to our other global sites, including China, Mexico and Poland. The closure of facilities, or restrictions inhibiting our employees' ability to access facilities, has disrupted, and could in the future disrupt our ability to provide our services and solutions and result in, among other things, terminations of customer contracts and losses of revenue. Customers may also slow down decision making, delay planned work or seek to modify existing agreements. Further, key personnel could contract the coronavirus hindering their ability to perform for us. One or more of our physical locations could become a cluster for the coronavirus, causing a large concentration of our employees to be adversely impacted and causing a significant disruption to our operations. Any of these events could cause or contribute to the risks and uncertainties enumerated in our filings with the SEC and could materially adversely affect our business, financial condition, results of operations and/or stock price.

***Our results of operations could be adversely affected by economic and political conditions, creating complex risks, many of which are beyond our control.***

Our business depends on the continued demand for our services, and if current global economic conditions worsen, our business could be adversely affected by our customers' financial condition and level of business activity. Along with our customers we are subject to global political, economic and market conditions, including inflation, interest rates, energy costs, the impact of natural disasters, disease, military action and the threat of terrorism. In particular, we currently derive, and are likely to continue to derive, a significant portion of revenues from customers located in North America and EMEA. Any future decreases in the general level of economic activity in these markets, such as decreases in business and consumer spending and increases in unemployment rates as have begun to be experienced as a result of the COVID-19 pandemic, could result in a decrease in demand for our services, thus reducing our revenue. For example, certain customers may decide to reduce or postpone their spending on the services we provide, and we may be forced to lower our prices. Other developments in response to economic events, such as consolidations, restructurings or reorganizations, particularly involving our customers, could also cause the demand for our services to decline, negatively affecting the amount of business that we are able to obtain or retain. We may not be able to predict the impact such conditions will have on the industries we serve and may be unable to plan effectively for or respond to such impact. In response to economic and market conditions, from time to time we have undertaken or may undertake initiatives to reduce our cost structure where appropriate, such as consolidation of resources to provide functional region-wide support to our international subsidiaries in a centralized fashion. These initiatives, as well as any future workforce and facilities reductions we may implement, may not be sufficient to meet current and future changes in economic and market conditions and allow us to continue to achieve the growth rates expected. In addition, costs actually incurred in connection with certain restructuring actions may be higher than our estimates of such costs and/or may not lead to the anticipated cost savings.

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Additionally, major political events, including the withdrawal of the United Kingdom from the European Union on January 31, 2020 ("Brexit"), continue to create uncertainty on topics that are relevant to our operations in the United Kingdom, such as immigration laws and employment laws, trade agreements and privacy laws. While the United Kingdom has agreed to follow all EU rules until December 31, 2020, and their trading relationship will remain the same during this period, the United Kingdom and the EU are currently in negotiations on the final terms of the United Kingdom's withdrawal. We are currently examining the various possible impacts Brexit may have on our business and operating model in an effort to develop solutions to address any of the potential outcomes. In addition, it is possible that Brexit may adversely affect global economic conditions and financial markets, to a greater extent than we have currently anticipated.

In addition, any future disruptions or turbulence in the global credit markets may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers. Such disruptions may limit our ability to access financing, increase the cost of financing needed to meet liquidity needs and affect the ability of our customers to use credit to purchase our services or to make timely payments to us, adversely affecting our financial condition and results of operations.

***We have recorded significant goodwill impairment charges and may be required to record additional charges to future earnings if our goodwill or intangible assets become impaired.***

As of December 31, 2019, our goodwill balance was $358.5 million which represented 28.0% of total consolidated assets. We are required under generally accepted accounting principles to review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our intangible assets and/or goodwill may not be recoverable include a decline in stock price and market capitalization, slower growth rates in our industry or our own operations, and/or other materially adverse events that have implications on the profitability of our business or business segments. We may be required to record additional charges to earnings during the period in which any impairment of our goodwill or other intangible assets is determined which could have a material adverse impact on our results of operations. Even though these charges may be non-cash items and may not have an immediate impact on our liquidity, the fact that we report charges of this nature could contribute to negative market perceptions about us or our securities, including, without limitation, our Common Stock.

***Cybersecurity issues, vulnerabilities, and criminal activity resulting in a data or security breach could result in risks to our systems, networks, products, solutions and services resulting in liability or reputational damage.***

We collect and retain large volumes of internal and customer data, including personally identifiable information and other sensitive data both physically and electronically, for business purposes, and our various information technology systems enter, process, summarize and report such data. We also maintain personally identifiable information about our employees. Safeguarding customer, employee and our own data is a key priority for us, and our customers and employees have come to rely on us for the protection of their personal information. Augmented vulnerabilities, threats and more sophisticated and targeted cyber-related attacks pose a risk to our security and the security of our customers, partners, suppliers and third-party service providers, and to the confidentiality, availability and integrity of data owned by us or our customers. Despite our efforts to protect sensitive, confidential or personal data or information, we may be vulnerable to material security breaches, theft, misplaced or lost data, programming errors, employee errors and/or malfeasance that could potentially lead to the compromise of sensitive, confidential or personal data or information, improper use of our systems, software solutions or networks, unauthorized access, use, disclosure, modification or destruction of information, d

efective products, production downtimes and operational disruptions. Despite protective measures, we may not be successful in preventing security breaches which compromise the confidentiality and integrity of this data. While an attempt is made to mitigate these risks by employing a number of measures, including employee training, monitoring and testing, and maintenance of protective systems and contingency plans, we remain vulnerable to such threats. The risk of such threats may be heightened as a result of an extended period of remote work arrangements due to the COVID-19 pandemic.

The sensitive, confidential or personal data or information that we have access to is also subject to privacy and security laws, regulations or customer-imposed controls. The regulatory environment, as well as the requirements imposed on us by the industries we serve governing information, security and privacy laws is increasingly demanding. Maintaining compliance with applicable security and privacy regulations may increase our operating costs and/or adversely impact our ability to provide services to our customers. Furthermore, a compromised data system or the intentional, inadvertent or negligent release or disclosure of data could result in theft, loss, fraudulent or unlawful use of customer, employee or our data which could harm our reputation or result in remedial and other costs, fines or lawsuits. In addition, a cyber-related attack could result in other negative consequences, including damage to our reputation or competitiveness, remediation or increased protection costs, litigation or regulatory action. Fraud, employee negligence, and unauthorized access, including, without limitation, malfunctions, viruses and other events beyond our control, may lead to the misappropriation or unauthorized disclosure of sensitive or confidential information we process, store and transmit, including personal information, for our customers, failure to prevent or mitigate data loss or other security breaches, including breaches of our vendors' technology and systems, could expose us or our customers to a risk of loss or misuse of such information, adversely affect our operating results, result in litigation or potential liability for us and otherwise harm our business. As a result, we may be subject to monetary damages, regulatory enforcement actions or fines under federal legislation, such as, the Gramm-Leach-Bliley Act and HIPAA, as well as various states' laws, such as the California Consumer Privacy Act ("CCPA"), which became effective on January 1, 2020 or under the GDPR in Europe. Similarly, regulations such as the Health Information Technology for Economic and Clinical Health Act provisions of the American Recovery and Reinvestment Act of 2009 expand the obligations of "covered entities" and their business associates, including certain mandatory breach notification requirements. In addition to any legal liability, data or security breaches may lead to negative publicity, reputational damage and otherwise adversely affect the results of our operations.

***Our industry may be adversely impacted by a negative public reaction in the U.S. and elsewhere to providing certain of our services from outside the U.S. and related legislation.***

We have based our strategy of future growth on certain assumptions regarding our industry and future demand in the market for the provision of business process solutions in part using offshore resources. However, providing services from offshore locations is a politically sensitive topic in the U.S. and elsewhere, and many organizations and public figures have publicly expressed concern about a perceived association between offshore service providers and the loss of jobs in their home countries. In addition, there has been some publicity about the negative experience of certain companies that provide their services offshore, particularly in India. The trend of providing business process solutions offshore may not continue and could reverse if companies elect to develop and perform their business processes internally or are discouraged from transferring these services to offshore service providers. Any slowdown or reversal of existing industry trends could negatively affect the amount of business that we are able to obtain or retain.

A variety of U.S. federal and state legislation has been proposed that, if enacted, could restrict or discourage U.S. companies from providing their services from outside the U.S., including proposals for providing tax and other economic incentives for companies that create jobs in the U.S. by reducing their reliance on offshore locations. Other state bills have proposed requiring offshore service providers to disclose their geographic locations, requiring notice to individuals whose personal information is disclosed to non-U.S. affiliates or subcontractors, requiring disclosures of companies' foreign outsourcing practices or restricting U.S. private sector companies that have government contracts, grants or guaranteed loan programs from providing their services. Because most of our customers are located in the U.S., any expansion of existing laws or the enactment of new legislation that constrains our ability to provide our solutions from offshore or otherwise makes using our services unappealing or impractical for our customers could have a material and adverse effect on our business, results of operations, financial condition and cash flows.

***The HGM Group has significant influence over us and our corporate governance.***

The HGM Group has voting control of approximately 50% of our Common Stock. As long as the HGM Group owns or controls a significant percentage of outstanding voting power, it will have the ability to strongly influence all corporate actions requiring stoc

kholder approval, including the election and removal of directors and the size of our board of directors, any amendment of our certificate of incorporation or bylaws, or the approval of any merger or other significant corporate transaction, including a sale of substantially all of our assets. In addition, pursuant to the terms of

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the Director Nomination Agreement, the HGM Group has certain nomination rights with respect to our board of directors and consent rights over certain of our corporate actions.

Additionally, the HGM Group's interests may not align with the interests of our other stockholders. The HGM Group is in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. The HGM Group may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us. In addition, our certificate of incorporation provides that we renounce any interest or expectancy in the business opportunities of the HGM Group and that it shall not have any obligation to offer to us those opportunities unless presented to one of our directors or officers in his or her capacity as a director or officer of Exela.

***Certain services we provide to customers in ou***

r public sector vertical may be subject to additional restrictions or limitations.

Our engagements with entities in the public sector, may be subject to compliance with additional legislative or regulatory requirements. Certain state and local governments and agencies have adopted, or may in the future adopt, legislation or rules imposing additional requirements on services provided to the public sector, including restrictions as to where certain services can be performed or where certain data can be stored, even within the U.S. Additionally, our employees who are staffed on certain public sector engagements may be subject to strict background checks or other certifications. These additional requirements may make it more difficult to staff large public sector engagements, require us to turn down new engagements, affect our ability to meet customer expectations, deadlines or other specifications and otherwise increase our costs or decrease our revenues. Further, there can be no assurances that a public sector entity will not face funding shortages or reallocate funding for our services to other priorities, either prior to or after we have begun to perform our services, which could impact whether we are fully compensated for our services and could have a material adverse effect on our business, results of operations, financial condition and cash flows. In addition, the results of the 2020 U.S. presidential election could have further impacts on our work in the public sector if new policies or funding priorities are enacted.

***Certain of our contracts are subject to termination rights, audits and/or investigations, which, if exercised, could negatively impact our reputation and reduce our ability to compete for new contracts and have an adverse effect on our business, results of operations and financial condition.***

Many of our customer contracts may be terminated by our customers without cause and without any fee or penalty, with only limited notice. Any failure to meet a customer's expectations, as well as factors beyond our control, including a customer's financial condition, strategic priorities, or mergers and acquisitions, could result in a cancellation or non-renewal of such a contract or a decrease in business provided to us and cause our actual results to differ from our forecasts. We may not be able to replace any customer that elects to terminate or not renew its contract with us, which would reduce our revenues.

In addition, a portion of our revenues is derived from contracts with the U.S. federal and state governments and their agencies and from contracts with foreign governments and their agencies. Government entities typically finance projects through appropriated funds. While these projects are often plan

ned and executed as multi-year projects, government entities usually reserve the right to change the scope of or terminate these projects for lack of approved funding and/or at their convenience. Changes in government or political developments, including budget deficits, shortfalls or uncertainties, government spending reductions (e.g., during a government shutdown) or other debt or funding constraints could result in lower governmental sales and in our projects being reduced in price or scope or terminated altogether, which also could limit our recovery of incurred costs, reimbursable expenses and profits on work completed prior to the termination. The public procurement environment is unpredictable and this could adversely affect our ability to perform work under new and existing contracts. Also, our government business is subject to the risk that one or more of our potential contracts or contract extensions may be diverted by the contracting agency to a small or disadvantaged or minority-owned business pursuant to set-aside programs administered by the Small Business Administration, or may be bundled into large multiple award contracts for very large businesses. These risks can potentially have an adverse effect on our revenue growth and profit margins.

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If the government finds that it inappropriately charged any costs to a contract, the costs are not reimbursable or, if already reimbursed, the cost must be refunded to the government. Additionally, if the government discovers improper or illegal activities or contractual non-compliance (including improper billing), we may be subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with the government. Any resulting penalties or sanctions could materially adversely affect our results of operations and financial condition. Moreover, government contracts are generally subject to audits and investigations by government agencies. Further, the negative publicity that could arise from any such penalties, sanctions or findings in such audits or investigations could have an adverse effect on our reputation in the industry and reduce our ability to compete for new contracts and could materially adversely affect our results of operations and financial condition.

***Our services and facilities may be impacted by terrorism, natural disasters and other disruptions, resulting in an adverse effect on our profitability and financial condition.***

Our ability to provide services may be impacted or disrupted as a result of natural disasters, technical disruptions (including power outage and telecommunications failure), man-made events (including cyber-attacks, war and terrorist attacks), and global health risks or pandemics, including the coronavirus, as well as the threat or perceived threat of any of these events in the U.S. or any of the locations in which we operate. A significant portion of our employees and key operations centers are located in India and the Philippines, with, particularly in India, limited diversification or redundancy. India and the Philippines are particularly susceptible to natural disasters, including typhoons, tsunamis, floods and earthquakes, and the Philippines is additionally susceptible to volcanic eruptions. Our operations in these locations, as well as certain other countries outside of the U.S., are also at greater risk of disruptions in electricity, other public utilities or network services due to substandard infrastructure. Although all of our operations centers have disaster management plans, certain disaster management facilities, particularly in India, may not be adequate to protect against potential disruptions due to natural or other disasters. Damage, destruction or disruptions, including to our MegaCenters, could make it difficult or impossible for employees to reach our business locations or otherwise interrupt our ability to provide our services. Sustained periods of interruption in our services could adversely affect our reputation and relationships with our customers, cause us to incur substantial expenses and expose us to liability. Our insurance coverage may not be sufficient to cover all of our potential losses and our business, results of operation and financial condition could be adversely affected.

Any disruption related to our U.S. data centers or MegaCenters due to any of the foregoing events may cause significant disruptions in our ability to provide our services to our customers and result in a material adverse effect on our reputation, results of operations and financial condition and our business, results of operations and financial condition could be adversely affected.

Although we believe that our insurance coverage with respect to disruptive events is reasonable, significant events such as acts of war and terrorism, economic conditions, judicial decisions, legislation, natural disasters and large losses could materially affect our insurance obligations and future expense.

***Our executives, senior management team and other key personnel are critical to our continued success and the l***

oss of such personnel, or an inability to attract, engage, retain and integrate our executives and other key employees could harm our business.

Our future success substantially depends on the continued service and performance of our executives, senior management team, as well as other key individuals in senior leadership positions. These personnel possess business and technical capabilities that are difficult to replace. The loss of any of our key personnel, particularly to competitors, may adversely affect our ability to effectively manage our current operations or meet ongoing and future business challenges. Further, identifying, developing internally or hiring externally, training and retraining highly-skilled managerial, technical, sales and services, finance and marketing personnel are critical to our future. Failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations.

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***Our business, financial position, and results of operations could be harmed by adverse rating actions by credit rating agencies.***

If the credit ratings of our outstanding indebtedness are downgraded, or if rating agencies indicate that a downgrade may occur, our business, financial position, and results of operations could be adversely affected and perceptions of our financial strength could be damaged. A downgrade would have the effect of increasing our borrowing costs, and could decrease the availability of funds we are able to borrow, adversely affecting our business, financial position, and results of operations. In addition, a do

wngrade could adversely affect our relationships with our customers.

***Our current failure to meet the continued listing requirements of Nasdaq could result in a delisting of our Common Stock.***

Our Common Stock is currently listed for trading on The Nasdaq Capital Market, and the continued listing of our Common Stock on The Nasdaq Capital Market is subject to our compliance with a number of listing standards. In November 2019, we received a notice from Nasdaq that because the closing bid price for our Common Stock had fallen below $1.00 per share for 30 consecutive business days, we no longer complied with the $1.00 minimum bid price requirement for continued listing on The Nasdaq Capital Market under Rule 5550(a)(2) of the Nasdaq Listing Rules. Pursuant to Nasdaq Listing Rules, as tolled for the current COVID-19 pandemic, we have until August 10, 2020 to regain compliance with the minimum bid price requirement. To regain compliance, the closing bid price of the Company's Common Stock must meet or exceed $1.00 per share for a minimum of 10 consecutive business days prior to August 10, 2020. In addition, in April 2020 we received an additional notice specifying that we are not in compliance with Nasdaq Listing Rule 5550(b)(2) because for 30 consecutive business days our Market Value of Listed Securities ("MVLS") was below the minimum requirement of $35 million. While we have since regained compliance with the MVLS requirement by having our MVLS close at or above $35 million for a minimum of ten consecutive business days, there can be no assurance that our MVLS will not again fall below $35 million for a period of 30 consecutive business days.

If we do not regain compliance with the minimum bid price requirement by August 10, 2020, we may be eligible for an additional grace period. To qu

alify, we would be required to meet the continued listing requirements for MVLS and all other initial listing standards for The Nasdaq Capital Market, with the exception of the minimum bid price requirement, and provide written notice of our intention to cure the minimum bid price deficiency during the second compliance period. If we meet these requirements, the Nasdaq staff will grant an additional 180 calendar days for us to regain compliance with the minimum bid price requirement. If the Nasdaq staff determines that we will not be able to cure the deficiency, or if we are otherwise not eligible for such additional compliance period, Nasdaq will provide notice that our Common Stock will be subject to delisting. We would have the right to appeal a determination to delist our Common Stock, and the Common Stock would remain listed on The Nasdaq Capital Market until the completion of the appeal process. Separate from the bid price and MVLS issues, on April 2, 2020, the Company received a notice from Nasdaq notifying the Company that, as a result of its failure to timely file this Annual Repo rt, it is not in compliance with Nasdaq Listing Rule 5250(c)(1), which requires timely filing of periodic reports with the SEC. In the notice, Nasdaq indicated that the Company had 60 calendar days from the date of the notice (or until June 2, 2020) to submit a plan to regain compliance with Nasdaq's continued listing requirements. The Company submitted its plan on June 1, 2020 requesting that the Nasdaq staff grant the Company until September 28, 2020, to regain compliance by filing this Form 10-K. If our Common Stock were no longer listed on The Nasdaq Capital Market, investors might only be able to trade on one of the over-the-counter markets. This would impair the liquidity of our Common Stock not only in the number of shares that could be bought and sold at a given price, which might be depressed by the relative illiquidity, but also through delays in the timing of transactions and reduction in media coverage. In addition, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our securities;
- a limited amount of news and analyst coverage for us; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

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We may take actions to restore our compliance with Nasdaq's listing requirements, but we can provide no assurance that any such action taken by us would allow our Common Stock to become listed again, stabilize the market price or improve the liquidity of our Common Stock or prevent future non-compliance with Nasdaq's listing requirements.

***The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.***

As a public company, we are subject to the reporting requirements of the Exchange Act, the listing requirements of the Nasdaq and other applicable securities rules and regulations. Compliance with these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly, and increase demand on our systems and resources, particularly as we are no longer an emerging growth company. Among other things, the Exchange Act requires that we file annual, quarterly and current reports with respect to our business and operating results and maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire even more employees in the future, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expense and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

As a result of being a public company and these new rules and regulations, it is more expensive for us to obtain director and officer liability insurance, and in the future we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and

compensation committee, and qualified executive officers.

***If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.***

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, as amended (the "Sarbanes-Oxley Act"), and the listing standards of the Nasdaq Stock Market. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time consuming and costly, and place significant strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. We are also continuing to improve our internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures

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and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesse

s in our disclosure controls or our internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of management evaluations of our internal control over financial reporting that we are required to include in our periodic reports that we file with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our Common Stock. In addition, if we are unable to meet these requirements, we may not be able to remain listed on the Nasdaq Stock Market.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019 and based on its assessment, our management, including our CEO and CFO, has concluded that our internal control over financial reporting was not effective as of December 31, 2019 due to material weaknesses in our internal control over financial reporting.

Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and operating results and cause a decline in the price of our Common Stock.

Internal control matters are more fully discussed in Part II—Item 9A—Controls and Procedures of this Annual Report.

***Downgrades in our credit ratings could impact our ability to access capital and materially adversely affect our business, financial condition and results of operations.***

Credit rating agencies continually review their ratings for the companies that they follow, including us. Credit rating agencies also evaluate the industries in which we and our affiliates operate as a whole and may change their credit rating for us based on their overall view of such industries. Both Moody's and Standard and Poor's downgraded our ratings during 2019. There can be no assurance that any rating assigned to our currently outstanding public debt securities will remain in effect for any given period of time or that any such ratings will not be further lowered, suspended or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances so warrant.

A further downgrade of our credit ratings could, among other things:

- limit our ability to access capital or otherwise adversely affect the availability of other new financing on favorable terms, if at all;
- result in more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur;
- cause us to refinance indebtedness with less favorable terms and conditions, which debt may require collateral and restrict, among other things, our ability to pay distributions or repurchase shares;
- increase our cost of borrowing;
- adversely affect the market price of our outstanding debt securities; and
- impair our business, financial condition and results of operation.

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***If we are unable to attract, train and retain skilled professionals, including highly skilled technical personnel to satisfy customer demand and senior management to lead our business globally, our business and results of operations may be materially adversely affected.***

Our success is dependent, in large part, on our ability to keep our supply of skilled professionals, including project managers, IT engineers and senior technical personnel, in balance with customer demand around the world and on our ability to attract and retain senior management with the knowledge and skills to lead our business globally. Each year, we must hire several hundred new professionals and retrain, retain, and motivate our workforce across the globe. Competition for skilled labor is intense and, in some jurisdictions in which we operate, there are more jobs for certain professionals than qualified persons to fill these jobs. Costs associated with recruiting and training professionals can be significant. If we are unable to hire or deploy employees with the needed skillsets or if we are unable to adequately equip our employees with the skills needed, this could materially adversely affect our business. Additionally, if we are unable to maintain an employee environment that is competitive and contemporary, it could have an adverse effect on engagement and retention, which may materially adversely affect our business. If more stringent labor laws become applicable to us or if a significant number of our employees unionize, our profitability may be adversely affected.

Increased labor costs due to competition, increased minimum wage or employee benefits costs (including various federal, state and local actions to increase minimum wages), unionization activity or other factors would adversely impact our cost of sales and operating expenses. For example, the State of California has passed regulations which increased minimum wage rates from $10.50 per hour to $15.00 per hour by 2022. In addition, the federal government and a number of other states are evaluating various proposals to increase their respective minimum wage. As minimum wage rates increase, we may need to increase not only the wages of our minimum wage employees but also the wages paid to employees at wage rates that are above minimum wage. As a result, we anticipate that our labor costs will continue to increase.

We are also subject to applicable rules and regulations relating to our relationship with our employees, including minimum wage and break requirements, health benefits, unemployment and sales taxes, overtime, and working conditions and immigration status. Legislated increases in the minimum wage and increases in additional labor cost components, such as employee benefit costs, workers' compensation insurance rates, compliance costs and fines, as well as the cost of litigation in connection with these regulations, would increase our labor costs. Unionizing and collective bargaining efforts have received increased attention nationwide in recent periods. While a small n

umber of our employees belong to unions, should our employees become represented by unions, we would be obligated to bargain with those unions with respect to wages, hours, and other terms and conditions of employment, which is likely to increase our labor costs. Moreover, as part of the process of union organizing and collective bargaining, strikes and other work stoppages may occur, which would cause disruption to our business. Similarly, many employers nationally in similar environments have been subject to actions brought by governmental agencies and private individuals under wage-hour laws on a variety of claims, such as improper classification of workers as exempt from overtime pay requirements and failure to pay overtime wages properly, with such actions sometimes brought as class actions. These actions can result in material liabilities and expenses. Should we be subject to employment litigation, such as actions involving wage-hour, overtime, break, and working time, we may distract our management from business matters and result in increased labor costs. If costs of labor increase significantly, our business, results of operations, and financial condition may be adversely affected.

***We may not always offset increased costs with increased fees under long-term contracts.***

The pricing and other terms of our customer contracts, particularly our long-term contact center agreements, are based on estimates and assumptions we make at the time we enter into these contracts. These estimates reflect our best judgments regarding the nature of the engagement and our expected costs to provide the contracted services and could differ from actual results. Not all our larger long-term contracts allow for escalation of fees as our cost of operations increase and those that allow for such escalations do not always allow increases at rates comparable to increases that we experience. If and where we cannot negotiate long-term contract terms that provide for fee adjustments to reflect increases in our cost of service delivery, our business, financial conditions, and results of operation would be materially impacted.

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***Our business process automation solutions often require long selling cycles and long implementation periods that may result in significant upfront expenses that may not be recovered.***

We often face long selling cycles to secure new contracts for our business process automation solutions. If we are successful in obtaining an engagement, the selling cycle can be followed by a long implementation period during which we plan our services in detail and demonstrate to the customer our ability to successfully integrate our solutions with the customer's internal operations. Our customers may experience delays in obtaining internal approvals or delays associated with technology or system implementations which can further lengthen the selling cycle or implementation period, and certain engagements may also require a ramping up period after implementation before we can commence providing our services. Even if we succeed in developing a relationship with a potential customer and begin to discuss the services in detail, the potential customer may choose a competitor or decide to retain the work in-house prior to the time a contract is signed. In addition, once a contract is signed, we sometimes do not begin to receive revenue until completion of the implementation period and our solution is fully operational. The extended lengths of our selling cycles and implementation periods can result in the incurrence of significant upfront expenses that may never result in profits or may result in profits only after a significant period of time has elapsed, which may negatively impact our financial performance. For example, we generally hire new employees to provide services in connection with certain large engagements once a new contract is signed. Accordingly, we may incur significant costs associated with these hires before we collect corresponding revenues. Our inability to obtain contractual commitments after a selling cycle, maintain contractual commitments after the implementation period or limit expenses prior to the receipt of corresponding revenue may have a material adverse effect on our business, results of operations and financial condition.

***We face significant competition from U.S.-based and non-U.S.-based companies and from our customers who may elect to perform their business processes in-house.***

Our industry is highly competitive, fragmented and subject to rapid change. We compete primarily against large multi-national information technology companies, focused BPO companies based in offshore locations, BPO divisions of information technology companies located in India, other BPO and consulting providers that focus on the legal sector and the in-house capabilities of our customers and potential customers. These competitors may include entrants from adjacent industries or entrants in geographic locations with lower costs than those in which we operate.

We believe that the principal competitive factors in our markets are breadth and depth of process expertise, knowledge of industries served, service quality, scalability of solutions, the ability to attract, train and retain qualified people, compliance rigor, global delivery capabilities, outcome-based pricing and sales and customer management capabilities. Some of our competitors have greater financial, marketing, technological or other resources, larger customer bases and more established reputations or brand awareness than we do. In addition, some of our competitors who do not have, or have limited, global delivery capabilities may expand their delivery centers to the countries in which we operate or increase their capacity in lower cost geographies, which could result in increased competition. Some of our competitors may also enter into strategic or commercial relationships among themselves or with larger, more established companies in order to benefit from increased scale and enhanced scope capabilities or enter into similar arrangements with potential customers. Further, we expect competition to intensify in the future as more companies enter our markets and customers consolidate the services they require among fewer vendors. Increased competition, our inability to compete successfully against competitors, pricing pressures or loss of market share could result in reduced operating margins, which could adversely affect our business, results of operations and financial condition.

***Our industry is characterized by rapid technological change and failure to compete successfully within the industry and address rapid technological change could adversely affect our results of operations and financial condition.***

The process of developing new services and solutions is inherently complex and uncertain. It requires accurate anticipation of customers' changing needs and emerging technological trends. We must make long-term investments and commit significant resources before knowing whether these investments will eventually result in services that achieve customer acceptance and generate the revenues required to provide desired returns. If we fail to accurately anticipate and meet our customers' needs through the development of new technologies and service offerings or if our new services are not widely accepted, we could lose market share and customers to our competitors and that could materially adversely affect our results of operations and financial condition.

More specifically, the business process solutions industry is characterized by rapid technological change, evolving industry standards and changing customer preferences. The success of our business depends, in part, upon our ability to develop technology and solutions that keep pace with changes in our industry and the industries of our customers. Although we have made, and will continue to make, significant investments in the research, design and development of new technology and platforms-driven solutions, we may not be successful in addressing these changes on a timely basis or in marketing the changes we implement. In addition, products or technologies developed by others may render our services uncompetitive or obsolete. Failure to address these developments could have a material adverse effect on our business, results of operations and financial condition.

In addition, existing and potential customers are actively shifting their businesses away from paper-based environments to electronic environments with reduced needs for physical document management and processing. This shift may result in decreased demand for the physical document management services we provide such that our business and revenues may become more reliant on technology-based services in electronic environments, which are typically provided at lower prices compared to physical document management services. Though we have solutions for customers seeking to make these types of transitions, a significant shift by our customers away from physical documents to non-paper based technologies, whether now existing or developed in the future, could adversely affect our business, results of operation and financial condition.

Also, some of the large international companies in the industry have significant financial resources and compete with us to provide document processing services and/or business process services. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, distribution and customer service and support. Our success in future performance is largely dependent upon our ability to compete successfully, to promptly and effectively react to changing technologies and customer expectations and to expand into additional market segments. To remain competitive, we must develop services and applications; periodically enhance our existing offerings; remain cost efficient; and attract and retain key personnel and management. If we are unable to compete successfully, we could lose market share and important customers to our competitors and that could materially adversely affect our results of operations and financial condition.

***We rely, in some cases, on third-party hardware and software, which could cause errors or failures of our services and could also result in adverse effects for our business and reputation if these third-party services fail to perform properly or are no longer available.***

Although we developed our platform-driven solutions internally, we rely, in some cases, on third-party hardware and software in connection with our service offerings which we either purchase or lease from third-party vendors. We are generally able to select from a number of competing hardware and software applications, but the complexity and unique specifications of the hardware or software makes design defects and software errors difficult to detect. Any errors or defects in third-party hardware or software incorporated into our service offerings, may result in a delay or loss of revenue, diversion of resources, damage to our reputation, the loss of the affected customer, loss of future business, increased service costs or potential litigation claims against us.

Further, this hardware and software may not continue to be available on commercially reasonable terms or at all. Any loss of the right to use any of this hardware or software could result in delays in the provisioning of our services, which could negatively affect our business until equivalent technology is either developed by us or, if available, is identified, obtained and integrated. In addition, it is possible that our hardware vendors or the licensors of third-party software could increase the prices they charge, which could have a material adverse impact on our results of operations. Further, changing hardware vendors or software licensors could detract from management's ability to focus on the ongoing operations of our business or could cause delays in the operations of our business.

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Some of the work we do involves greater risks than other types of claims processing or document management engagements.

We provide certain business process solutions for customers that, for financial, legal or other reasons, may present higher risks compared to other types of claims processing or document management engagements. Examples of higher risk engagements include, but are not limited to:

- class action and other legal distributions involving significant sums of money;
- economic analysis and expert testimony in high stakes legal matters; and
- engagements where we receive or process sensitive data, including personal consumer or private health information.

While we attempt to identify higher risk engagements and customers and mitigate our exposure by taking certain preventive measures and, where necessary, turning down certain engagements, these efforts may be ineffective and an actual or alleged error or omission on our part, the part of our customer or other third parties or possible fraudulent activity in one or more of these higher-risk engagements could result in the diversion of management resources, damage to our reputation, increased service costs or impaired market acceptance of our services, any of which could negatively impact our business and our financial condition.

***We encounter professional conflicts of interest.***

We encounter professional conflicts of interest, particularly in our provision of expert witness testimony in certain of our legal engagement services. Although we have systems and procedures to identify potential conflicts of interest prior to accepting a new engagement, there is no guarantee that all potential conflicts of interest will be identified, and undetected conflicts may result in damage to our reputation and result in professional liability, which may adversely impact our business and results of operations. If we are unable to accept new engagements for any reason, including business and legal conflicts, our professionals may become underutilized or discontented, which may adversely affect our future revenues and results of operations, as well as our ability to retain these professionals.

***New, more stringent privacy and data security regulations may have a negative impact on our business.***

Any inability to adequately address privacy and security concerns could result in expenses and liability, and adverse impact on us. Moreover, international privacy and data security regulations may become more complex and have greater consequences. For instance, as of May 25, 2018, the General Data Protection Regulation, or GDPR, has replaced the Data Protection Directive with respect to the collection and use of personal data of data subjects in the EU. The GDPR applies extra territorially and imposes several stringent requirements for controllers and processors of personal data, including, for example, higher standards for obtaining consent from individuals to process their personal data, more robust disclosures to individuals and a strengthened individual data rights regime, shortened timelines for data breach notifications, limitations on retention of information, increased requirements pertaining to health data, other special categories of personal data and pseudonymised (i.e., key-coded) data and additional obligations when we contract third-party processors in connection with the processing of the personal data. The GDPR provides that EU member states may make their own further laws and regulations limiting the processing of personal data, including genetic, biometric or health data, which could limit our ability to use and share personal data or could cause our costs could increase, and harm our business and financial condition. Failure to comply with the requirements of GDPR and the applicable national data protection laws of the EU Member States may result in fines of up to €20,000,000 or up to 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher, and other administrative penalties.

Similar to the GDPR, the CCPA, which became effective January 1, 2020, grants California residents with several new rights relating to their pe

rsonal information. The CCPA applies to businesses that conduct business in California and satisfies one of three financial conditions, including a business that has a gross revenue greater than $25 million. The CCPA sets forth several data protection obligations for applicable businesses, including, but not limited to

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the obligations to inform a consumer, at or before collection, of the purpose and intended use of the collection; and to delete a consumer's personal information upon request. As for penalties and fines, the CCPA establishes a private right of action for serious data breaches, which allows consumers the right to seek damages. The CCPA also allows the California Attorney General to bring actions against non-compliant businesses with fines of $2,500 per violation or, if intentional, up to $7,500 per violation.

Any future failure by us to comply with the GDPR and/or CCPA could have a material adverse effect on our business, results of operations or financial condition. Further, as the GDPR and CCPA have recently come into effect, enforcement priorities and interpretation of certain provisions are still unclear. Industry groups also impose self-regulatory standards that bind us by their incorporation into the contracts we execute. For example, should we fail to be compliant with the PCIDSS we may be subject to fines and other penalties.

***Our business could be materially and adversely affected if we do not protect our intellectual property or if our services are found to infringe on the intellectual property of others.***

Our success depends in part on certain methodologies and practices we utilize in developing and implementing applications and other proprietary intellectual property rights. In order to protect such rights, we rely upon a combination of nondisclosure and other contractual arrangements, as well as trade secret, copyright, trademark and patent laws. We also generally enter into confidentiality agreements with our employees, customers and potential customers and limit access to and distribution of our proprietary information. There can be no assurance that the laws, rules, regulations and treaties in effect in the U.S., India and the other jurisdictions in which we operate and the contractual and other protective measures we take are adequate to protect us from misappropriation or unauthorized use of our intellectual property, or that such laws will not change. There can be no assurance that the resources invested by us to protect our intellectual property will be sufficient or that our intellectual property portfolio will adequately deter misappropriation or improper use of our technology, and our intellectual property rights may not prevent competitors from independently developing or selling products and services similar to or duplicative of ours. We may not be able to detect unauthorized use and take appropriate steps to enforce our rights, and any such steps may be costly and unsuccessful. Infringement by others of our intellectual property, including the costs of enforcing our intellectual property rights, may have a material adverse effect on our business, results of operations and financial condition. We could also face competition in some countries where we have not invested in an intellectual property portfolio. If we are not able to protect our intellectual property, the value of our brand and other intangible assets may be diminished, and our business may be adversely affected. Further, although we believe that we are not infringing on the intellectual property rights of others, claims may nonetheless be successfully asserted against us in the future, and we may be the target of enforcement of patents or other intellectual property by third parties, including aggressive and opportunistic enforcement claims by non-practicing entities. Regardless of the merit of such claims, responding to infringement claims can be expensive and time-consuming. If we are found to infringe any third-party rights, we could be required to pay substantial damages or we could be enjoined from offering some of our products and services. The costs of defending any such claims could be significant, and any successful claim may require us to modify our services. The value of, or our ability to use, our intellectual property may also be negatively impacted by dependencies on third parties, such as our ability to obtain or renew on reasonable terms licenses that we need in the future, or our ability to secure or retain ownership or rights to use data in certain software analytics or services offerings. Any such circumstances may have a material adverse effect on our business, results of operations and financial condition.

We generate a significant portion of our revenues from a small number of customers, and any loss of business from these customers could materially reduce our revenues.

We have derived, and believe that in the foreseeable future we will continue to derive, a significant portion of our revenues from a small number of customers. While we have no one customer that accounts for more than 10% of our revenue, for each of the years ended December 31, 2019 and 2018, our ten largest customers accounted for approximately 26% of our revenues.

Our ability to maintain close relationships with these and other major customers is essential to the growth and profitability of our business. However, the volume of work performed for a specific customer is likely to vary from year to year. A major customer in one year may not provide the same level of revenues for us in any subsequent year and

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there can be no assurance that any customer will extend or renew its contract with us. The business process solutions we provide to our customers, and the revenues and net income from those services, may decline or vary as the type and quantity of services we provide change over time. Furthermore, our reliance on any individual customer for a significant portion of our revenues may give that customer a certain degree of pricing leverage against us when negotiating contracts and terms of service.

In addition, a number of factors other than our performance could cause the loss of or reduction in business or revenues from a customer, and these factors are not predictable. For example, a customer may decide to reduce spending on business process solutions from us due to a challenging economic environment or other factors, both internal and external, relating to our business. These factors may include corporate restructuring, pricing pressure, changes to our outsourcing strategy, switching to another BPO provider or returning work in-house or other changes in a customer's prospects or profitability. The risk of customer loss may be heightened as a result of recent economic volatility due to the COVID-19 pandemic. The loss of any of our major customers, or a significant decrease in the volume of work they give to us or the price at which we are able to provide our services to them, could materially adversely affect our revenues and thus our results of operations.

***Our revenues are highly dependent on a limited number of industries, and any decrease in demand for business process solutions in these industries could reduce our revenues and adversely affect the results of operations.***

A substantial portion of our revenues are derived from three specific industry-based segments: ITPS, HS, and LLPS. Customers in ITPS accounted for 79.0% and 80.3% of our revenues in 2019 and 2018, respectively. Customers in HS accounted for 16.4% and 14.4% of our revenues in 2019 and 2018, respectively. Customers in LLPS accounted for 4.6% and 5.3% of our revenues in 2019 and 2018, respectively.

Our success largely depends on continued demand for our services from customers in these segments, and a downturn or reversal of the demand for business process solutions in any of these segments, or the introduction of regulations that restrict or discourage companies from engaging our services, could materially adversely affect our business, financial condition and results of operations. For example, consolidation in any of these industries or combinations or mergers, particularly involving our customers, may decrease the potential number of customers for our services. We have been affected by the worsening of economic conditions and significant consolidation in the financial services industry and continuation of this trend may negatively affect our revenues and profitability. The COVID-19 pandemic, may lead to further increased consolidation in the financial services industry as larger, better capitalized competitors will be in a stronger position to withstand prolonged periods of economic downturn and sustain their business through the financial volatility.

***We derive significant revenue and profit from commercial and government contracts awarded through competitive bidding processes, including renewals, which can impose substantial costs on us, and we will not achieve revenue and profit objectives if we fail to accurately and effectively bid on such projects.***

Many of these contracts are extremely complex and require the investment of significant resources in order to prepare accurate bids and proposals. Competitive bidding imposes substantial costs and presents a number of risks, including: (i) the substantial cost and managerial time and effort that we spend to prepare bids and proposals for contracts that may or may not be awarded to us; (ii) the need to estimate accurately the resources and costs that will be required to implement and service any contracts we are awarded, sometimes in advance of the final determination of their full scope and design; (iii) the expense and delay that may arise if our competitors protest or challenge awards made to us pursuant to competitive bidding and the risk that such protests or challenges could result in the requirement to resubmit bids and in the termination, reduction or modification of the awarded contracts; and (iv) the opportunity cost of not bidding on and winning other contracts we might otherwise pursue. If our competitors protest or challenge an award made to us on a government contract, the costs to defend such an award may be significant and could involve subsequent litigation that could take years to resolve.

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***Our profitability is dependent upon our ability to obtain adequate pricing for our services and to improve our cost structure.***

Our success depends on our ability to obtain adequate pricing for our services. Depending on competitive market factors, future prices we obtain for our services may decline from previous levels. If

we are unable to obtain adequate pricing for our services, it could materially adversely affect our results of operations and financial condition. In addition, our contracts are increasingly requiring tighter timelines for implementation as well as more stringent service level metrics. This makes the bidding process for new contracts much more difficult and requires us to adequately consider these requirements in the pricing of our services.

We regularly review our operations with a view towards reducing our cost structure, including, without limitation, reducing our employee base, exiting certain businesses, improving process and system efficiencies and outsourcing some internal functions. We, from time to time, engage in restructuring actions to reduce our cost structure. If we are unable to continue to maintain our cost base at or below the current level and maintain process and systems changes resulting from prior restructuring actions or to realize the expected cost reductions in the ongoing strategic transformation program, it could materially adversely affect our results of operations and financial condition.

In addition, in order to meet the service requirements of our customers, which often includes 24/7 service, and to optimize our employee cost base, including our back-office support, we often locate our delivery service and back-office support centers in lower-cost locations, including several developing countries. Concentrating our centers in these locations presents a number of operational risks, many of which are beyond our control, including the risks of political instability, natural disasters, safety and security risks, labor disruptions, excessive employee turnover and rising labor rates. Additionally, a change in the political environment in the U.S. or the adoption and enforcement of legislation and regulations curbing the use of such centers outside of the U.S. could materially adversely affect our results of operations and financial condition. These risks could impair our ability to effectively provide services to our customers and keep our costs aligned to our associated revenues and market requirements.

Our ability to sustain and improve profit margins is dependent on a number of factors, including our ability to continue to improve the cost efficiency of our operations through such programs as robotic process automation, to absorb the level of pricing pressures on our services through cost improvements and to successfully complete information technology initiatives. If any of these factors adversely materialize or if we are unable to achieve and maintain produ

ctivity improvements through restructuring actions or information technology initiatives, our ability to offset labor cost inflation and competitive price pressures would be impaired, each of which could materially adversely affect our results of operations and financial condition.

***We are subject to regular customer and third-party security reviews and failure to pass these may have an adverse impact on our operations.***

Many of our customer contracts require that we maintain certain physical and/or information security standards, and, in certain cases, we permit a customer to audit our compliance with these contractual standards. Any failure to meet such standards or pass such audits may have a material adverse impact on our business. Further, customers from time to time may require stricter physical and/or information security than they negotiated in their contracts, and may condition continued volumes and business on the satisfaction of such additional requirements. Some of these requirements may be expensive to implement or maintain, and may not be factored into our contract pricing. Further, on an annual basis we obtain third-party audits of certain of our locations in accordance with Statement on Standards for Attestation Engagements No. 16 (SSAE 16) put forth by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA). SSAE 16 is the current standard for reporting on controls at service organizations, and many of our customers expect that we will perform an annual SSAE 16 audit, and report to them the results. Negative findings in such an audit and/or the failure to adequately remediate in a timely fashion such negative findings may cause customers to terminate their contracts or otherwise have a material adverse effect on our reputation, results of operation and financial condition.

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***Failure to adhere to the regulations that govern our business could have an adverse impact on our operations.***

Our customers are often subject to regulations that may require that we comply with certain rules and regulations in performing services for them that would not otherwise apply to us. U.S. fede

ral laws and regulations that apply to certain portions of our business include the Gramm-Leach-Bliley Act, HIPAA, and the HITECH Act of 2009. We must also comply with applicable regulations relating to healthcare and other personal information that we process as part of our services. Due to our global delivery model, we are also subject to the burden and expense of complying with the laws and regulations of various jurisdictions and changes thereto which are beyond our control. In addition, our contracts with some of our customers require us to remain knowledgeable about and comply with a number of additional relevant consumer protection laws and other regulatory requirements. Failure to perform our services in a manner that complies with any such requirement could result in breaches of contracts with our customers. Our failure to comply with any applicable laws and regulations could subject us to civil fines and criminal penalties.

***A significant portion of our assets and operations are located in India, the Philippines, China and Mexico, and we are subject to regulatory, economic and political uncertainties in those locations.***

A significant number of our operations centers are located in India, the Philippines and China and a majority of our assets and our professionals are located in those locations. We intend to continue to develop and expand our facilities in these areas. Our financial performance may be adversely affected by general economic conditions and economic and fiscal policy in these countries, including changes in exchange rates and controls, interest rates and taxation policies, as well as social stability and political, economic or diplomatic developments affecting those countries in the future. These countries have experienced significant economic growth over the last several years, but face major challenges in sustaining that growth in the years ahead. These challenges include the need for substantial infrastructure development and improving access to healthcare and education. Our ability to recruit, train and retain qualified employees, develop and operate our operations centers, and attract and retain customers could be adversely affected if these countries do not successfully meet these challenges.

In the early 1990s, India experienced significant inflation, low growth in gross domestic product and shortages of foreign currency reserves. The Indian government, however, has exercised and continues to exercise significant influence over many aspects of the Indian economy. India's government has provided significant tax incentives and relaxed certain regulatory restrictions in order to encourage foreign inv

estment in specified sectors of the economy, including the BPO industry. Certain of those programs that have benefited us include tax holidays, liberalized import and export duties and preferential rules on foreign investment and repatriation. We cannot assure you that liberalization policies will continue. Various factors, such as changes in the current federal government, could trigger significant changes in India's economic liberalization and deregulation policies and disrupt business and economic conditions in India generally and our business in particular.

The Philippines has experienced significant inflation, currency declines and shortages of foreign exchange. In addition, the Philippines has experienced and may continue to experience civil unrest, terrorism and political turmoil, resulting in temporary work stoppages and technology outages. These instabilities and any adverse changes in the political environment in the Philippines could increase our operational costs, increase our exposure to legal and business risks and make it more difficult for us to operate our business in the Philippines.

Our business operations in China may be adversely affected by our current and future political environment and the

outbreak of the coronavirus. The Chinese government can exert substantial influence and control over the manner in which companies in China conduct business. Under the current government leadership, the government of China has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of China will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

Our ability to efficiently conduct our business activities in Mexico is subject to changes in government policy or shifts in political attitudes that are beyond our control. Government policy may change to discourage foreign investment, nationalization of industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. In addition, Mexico may experience political instability, which may result in

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outbreaks of civil unrest, drug-related violence, terrorist attacks or threats or acts of war in the affected areas, any of which could materially and adversely affect our business, prospects, financial condition and results of operations.

***Introduction of tax legislation and disputes with tax authorities may have an adverse effect on our operations and our overall tax rate.***

Governments in countries in which we operate or provide services could enact new tax legislation that could have a material adverse effect on our overall effective tax rate. In addition, our ability to repatriate surplus earnings, if any, from our operations centers in a tax-efficient manner is dependent upon interpretations of local laws, possible changes in such laws and the renegotiation of existing double tax avoidance treaties. Changes to any of these may adversely affect our overall tax rate, which could have a material adverse effect on our business, results of operations and financial condition.

In addition, the transfer pricing regulations of the U.S. and certain foreign jurisdictions, including India, require that any cross-border transaction involving related parties be at an arm's-length price. Accordingly, we base our pricing between our foreign subsidiaries and related parties on a functional and economic analysis involving benchmarking against transactions among entities that are not related. However, the tax authorities have jurisdiction to review our transfer-pricing policy. If they conclude the policy was not applied appropriately, we may incur additional tax liability, including accrued interest and penalties.

***Sales tax laws in the U.S. may change resulting in service providers having to collect sales taxes in states where the current laws do not require us to do so. This could result in substantial tax liabilities.***

Our U.S. subsidiaries collect and remit sales tax in states in which the subsidiaries have physical presence or in which we believe sufficient nexus exists which obligates us to collect sales tax. Other states may, from time to time, claim that we have state-related activities constituting physical nexus to require such collection. Additionally, many other states seek to impose sales tax collection or reporting obligations on companies that sell goods to customers in their state, or directly to the state and its political subdivisions, regardless of physical presence. Such efforts by states have increased recently, as states seek to raise revenues without increasing the income tax burden on residents. We rely on U.S. Supreme Court decisions which hold that, without Congressional authority, a state may not enforce a sales tax collection obligation on a company that has no physical presence in the state. We cannot predict whether the nature or level of contacts we have with a particular state will be deemed enough to require us to collect sales tax in that state nor can we be assured that Congress or individual states will not approve legislation authorizing states to impose tax collection or reporting obligations on our activities. A successful assertion by one or more states that we should collect sales tax could result in substantial tax liabilities relate

d to past sales and would result in considerable administrative burdens and costs for us.

***Restrictions on entry visas may affect our ability to compete for and provide services to customers in the U.S., which could have a material adverse effect on future revenues.***

A significant number of our employees are foreign nationals, including from India, the Philippines and China. Certain members of our development team based in India travel to the U.S. on a regular basis to facilitate new project development, including the implementation of new contracts and to meet our U.S. customers. The ability of these employees to travel to the U.S. and other countries in which we do business depends on the ability to obtain the necessary visas and entry permits.

In response to political forces, terrorist attacks, the global economic downturn, global disease, public sentiments of high unemployment rates in certain parts of the U.S. and other events, U.S. immigration authorities have increased the level of scrutiny in granting visas and applicable immigration laws may be subject to legislative change and varying standards of application and enforcement. We cannot predict the political or economic events that could affect immigration laws or any restrictive impact those events could have on obtaining or monitoring entry visas for our professionals.

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***Investors may have difficulty effecting service of process or enforcing judgments obtained in the U.S. against our non-U.S. subsidiaries.***

We have significant operating subsidiaries that are organized outside the U.S. A portion of our assets are located in India, the Philippines, China, Mexico, and Canada. As a result, you may be unable to effect service of process upon our affiliates who reside in these jurisdictions. In additi

on, you may be unable to enforce against these persons outside the jurisdiction of their residence judgments obtained in U.S. courts, including judgments predicated solely upon U.S. federal securities laws.

***Currency fluctuations among the Euro, British Pound, Indian rupee, the Philippine Peso, the Mexican Peso, the Canadian Dollar, the Chinese Yuan and the U.S. Dollar could have a material adverse effect on our results of operations.***

We operate internationally and as a result, are subject to risks associated with doing business globally, such as risks related to the differing legal, political and regulatory requirements and economic conditions of many jurisdictions. Risks inherent to operating internationally include changes in a country's economic or political conditions, in foreign currency exchange rates, regulatory requirements and enforcement of intellectual property rights.

The functional currencies of our businesses outside of the U.S. are the local currencies. Changes in exchange rates between these foreign currencies and the U.S. Dollar will affect the recorded levels of our assets, liabilities, net sales, cost of goods sold and operating margins and could result in exchange gains or losses. The primary foreign currencies to which we have exposure are the European Union Euro, Swedish Krona, British Pound Sterling, Canadian Dollar and Indian rupees . Exchange rates between these currencies and the U.S. Dollar in recent years have fluctuated significantly and may do so in the future. Our operating results and profitability may be affected by any volatility in currency exchange rates and our ability to manage effectively currency transaction and translation risks. To the extent the U.S. Dollar strengthens against foreign currencies, our foreign revenues and profits will be reduced when translated into U.S. Dollars.

Although the vast majority of our revenues are denominated in U.S. dollars, a significant portion of our expenses are incurred and paid in Euros, British Pound Sterling, Swedish Krona, Indian rupees, and to a lesser extent in other currencies, including the Philippine Peso, the Mexican Peso, the Canadian dollar and the Chinese Yuan . We report our financial results in U.S. Dollars. The exchange rate between the Indian rupee and the U.S. Dollar has changed substantially in recent years and may fluctuate substantially

in the future. Our results of operations may be adversely affected if such fluctuations continue, or increase, or other currencies fluctuate significantly against the U.S. Dollar.

Although we do not currently take steps to hedge our foreign currency exposures, should we choose in the future to implement a hedging strategy, there can be no assurance that our hedging strategy will be successful or that the hedging markets would have sufficient liquidity or depth to allow us to implement such a hedging strategy in a cost-effective manner. Further, the success of any potential hedging strategy could be impacted by any failure by the hedging counterparties to meet their contractual obligations.

***We are subject to laws of the United States and foreign jurisdictions relating to processing certain financial transactions, including payment card transactions and debit or credit card transactions, and failure to comply with those laws could subject us to legal actions and materially adversely affect our results of operations and financial condition.***

We process, support and execute financial transactions, and disburse funds, on behalf of both government and commercial customers, often in partnership with financial institutions. This activity includes receiving debit and credit card information, processing payments for and due to our customers and disbursing funds on payment or debit cards to payees of our customers. As a result, the transactions we process may be subject to numerous United States (both federal and state) and foreign jurisdiction laws and regulations, including the Electronic Fund Transfer Act, as amended, the Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (including the so-called Durbin Amendment), as amended, the Gramm-Leach-Bliley Act (also known as the Financial Modernization Act of 1999), as amended, and the

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Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended. Other United States (both federal and state) and foreign jurisdiction laws apply to our processing of certain financial transactions and related support services. These laws are subject to frequent changes, and new statutes and regulations in this area may be enacted at any time. Changes to existing laws, the introduction of new laws in this area or failure to comply with existing laws that are applicable to us may subject us to, among other things, additional costs or changes to our business practices, liability for monetary damages, fines and/or criminal prosecution, unfav

orable publicity, restrictions on our ability to process and support financial transactions and allegations by our customers, partners and clients that we have not performed our contractual obligations. Any of these could materially adversely affect our results of operations and financial condition.

***Failure to comply with the U.S. Foreign Corrupt Practices Act, or the FCPA, economic and trade sanctions, regulations, and similar laws could subject us to penalties and other adverse consequences.***

We operate our business in several foreign countries with developing economies and have contracts with foreign governments, where companies often engage in business practices that are prohibited by U.S. and other regulations applicable to us. We are subject to anti-corruption laws and regulations, including the FCPA, the U.K. Bribery Act and other laws that prohibit the making or offering of improper payments to foreign government officials and political figures, including anti-bribery provisions enforced by the Department of Justice and accounting provisions enforced by the SEC. These laws prohibit improper payments or offers of payments to foreign governments and their officials and political parties by the U.S. and other business entities for the purpose of obtaining or retaining business. We have implemented policies to identify and address potentially impermissible transactions under such laws and regulations; however, there can be no assurance that all of our and our subsidiaries' employees, consultants, and agents, including those that may be based in or from countries where practices that violate U.S. or other laws may be customary, will not take actions in violation of our policies, for which we may be ultimately responsible.

We are also subject to certain economic and trade sanctions programs that are administered by the Department of Treasury's Office of Foreign Assets Control, or OFAC, which prohibit or restrict transactions to or from or dealings with specified countries, their governments, and in certain circumstances, their nationals, and with individuals and entities that are specially-designated nationals of those countries, narcotics traffickers, and terrorists or terrorist organizations. Our subsidiaries may be subject to additional foreign or local sanctions requirements in other relevant jurisdictions.

***Fluctuations in the costs of paper, ink, energy, by-products and other raw materials may adversely impact the results of our operations.***

Purchases of paper, ink, energy and other raw materials represent a large portion of our costs. Increases in the costs of these inputs may increase our costs and we may not be able to pass these costs on to customers through higher prices. In addition, we may not be able to resell waste paper and other print-related by-products or may be adversely impacted by decreases in the prices for these by-products. Increases in the cost of materials may adversely impact customers' demand for our printing and printing-related services.

***The market for our securities remains volatile and may not***

continue, which would adversely affect the liquidity and price of our securities.

The price of our securities, including, without limitation, our Common Stock, may continue to fluctuate significantly. An active trading market for our securities may not further develop or be sustained. In addition, the price of our securities can fluctuate due to general economic conditions and forecasts, our general business condition and the release of our financial reports.

***Changes in laws or regulations, or a failure to comply with any laws and regulations, may adversely affect our business, investments and results of operations.***

We are subject to laws, regulations and rules enacted by national, regional and local governments and Nasdaq. In particular, we are required to comply with certain SEC, Nasdaq and other legal or regulatory requirements.

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Compliance with, and monitoring of, applica

ble laws, regulations and rules may be difficult, time consuming and costly. Those laws, regulations and rules and their interpretation and application may also change from time to time and those changes could have a material adverse effect on our business, investments and results of operations. In addition, a failure to comply with applicable laws, regulations and rules, as interpreted and applied, could have a material adverse effect on our business and results of operations.

***If we are unable to successfully consummate acquisitions or experience delays in integrating acquisitions, it could have a material adverse effect on our business, financial condition and results of operations.***

One of our strategies to grow our business is to opportunistically acquire complementary businesses, technologies and services. This strategy depends in large part on our ability to find suitable acquisitions and finance them on acceptable terms. We may require additional debt or equity financing for future acquisitions, and doing so will be made more difficult by our indebtedness. Raising additional capital for acquisitions through debt financing could result in increased interest expense and may involve agreements that include covenants limiting or restricting our ability to take certain actions, such as incurring additional debt, making capital expenditures or declaring dividends. .

If we are unable to identify and acquire suitable acquisition candidates, we may experience slower growth. Further, we may face challenges in integrating any acquired business. These challenges include eliminating redundant operations, facilities and systems, coordinating management and personnel, retaining key employees, managing different corporate cultures and achieving cost reductions and cross-selling opportunities. Additionally, the acquisition and integration processes may disrupt our business and divert management attention and our resources. If we fail to successfully integrate acquired businesses, products, technologies and personnel, it could impair relationships with employees, clients and strategic partners, distract management attention from our core businesses, result in control failures and otherwise disrupt our ongoing business, any of which could have a material adverse effect on our business, financial condition and results of operations. We also may not be able to retain key management and other critical employees after an acquisition. In addition, we may be required to record future charges for impairment of goodwill and other intangible assets resulting from such acquisitions.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We lease and own numerous facilities worldwide with larger concentrations of space in Texas, Michigan, Connecticut, California, India, Mexico, the Philippines, and China. The size of our active property port

folio as of December 31, 2019 was approximately 4.2 million square feet (square feet) and comprised of 157 leased properties and 7 owned properties including offices, sales offices, service locations, and production facilities. Many of our operating facilities are equipped with fiber connectivity and have access to other power sources. Substantially all of our operations facilities are leased under long term leases with varying expiration dates, except for the following owned locations: (i) three operations facilities in India with a combined building area of approximately 91,500 sq. ft., respectively, (ii) an operating facility in Georgiana, Alabama with an approximate building area of 20,000 sq. ft., (iii) an operating facility in Tallahassee, Florida consisting of four buildings with a combined building area of approximately 21,000 sq. ft., (iv) an operating facility in Troy, Michigan that will serve as the Company’s primary data center with an approximate building area of 66,000 sq. ft. (v) an operating facility in Egham, England with an approximate building area of 11,000 sq. ft., and (vi) an innovation center in New York, NY with an approximate building area of 2,200 sq. ft. We also maintain an operating presence at approximately 900 customer sites.

Our properties are suitable to deliver services to our customers for each of our business segments. Our management believes that all of our properties and facilities are well maintained.

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**ITEM 3. LEGAL PROCEEDINGS**

Appraisal Demand

On September 21, 2017, former stockholders of SourceHOV, who owned 10,304 shares of SourceHOV common stock, filed an Appraisal Action. The Appraisal Action arose out of the Novitex Business Combination, and the petitioners sought, among other things, a determination of the fair value of their shares at the time of the Novitex Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses. During the trial the parties and their experts offered competing valuations of the SourceHOV shares as of the date of the Novitex Business Combination. SourceHOV argued the value was no more than $1,633.85 per share and the petitioners argued the value was at least $5,079.28 per share. On January 30, 2020, the Court issued its post-trial Memorandum Opinion in the Appraisal Action, in which it found that the fair value of SourceHOV as of the Closing Date was $4,591 per share, and on March 26, 2020, the Court issued its final order and judgment awarding the petitioners $57,698,426 inclusive of costs and interest. On May 7, 2020, SourceHOV filed a motion for new trial in relation to share count. Following the Court's decision on the motion for new trial, SourceHOV has the right to appeal the judgment. At this time, we cannot determine whether such motion or an appeal would be successful. Per the Court's opinion, the legal rate of interest, compounded quarterly, accrues on the per share value from the Closing Date until the date of payment to petitioners.

As a result of the Appraisal Action, 4,570,734 shares of our Common Stock issued to Ex-Sigma 2 have been returned to the Company during the first quarter of 2020.

*Class Action*

On March 23, 2020. Plaintiff, Bo Shen, filed a putative class action against the Company, Ronald Cogburn, the Company's Chief Executive Officer, and James Reynolds, the Company's former Chief Financial Officer. Plaintiff claims to be a current holder of 4,000 shares of Company stock, purchased on October 4, 2019 at $1.34/share. Plaintiff asserts two claims covering the purported class period of March 16, 2018 to March 16, 2020: (1) a violation of Section 10(b) and Rule 10b-5 of the Exchange Act against all defendants; and (2) a violation of Section 20(a) of the Exchange Act against Mr. Cogburn and Mr. Reynolds. The allegations stem from the Company's press release, dated March 16, 2020 (announcing the postponement of the earnings call and delay in filing of this Annual Report), and press release and related SEC filings, dated March 17, 2020 (announcing its intent to restate its financial statements for 2017, 2018 and interim periods through September 30, 2019). As of the date of this Annual Report,

the Company has not been served with the complaint. At this early stage in the litigation, it is not practicable to render an opinion about whether an unfavorable outcome is probable or remote with respect to this matter; however, the Company believes it has m
eritorious defenses and will vigorously defend them.

*Other*

We are, from time to time, involved in other legal proceedings, inquiries, claims and disputes, which arise in the ordinary course of business. Although our management cannot predict the outcomes of these matters, our management believes these actions will not have a material, adverse effect on our financial position, results of operations or cash flows.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

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## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

**Market Information**

Our Common Stock is traded on the Nasdaq under the symbol "XELA." Set forth below is the high and low sales price of our Common Stock during the periods presented.

| | Sales Price | |
|---|---|---|
| | High | Low |
| **Year Ended December 31, 2019** | | |
| Fourth Quarter | $ 1.63 | $ 0.27 |
| Third Quarter | 3.20 | 1.09 |
| Second Quarter | 4.00 | 1.65 |
| First Quarter | 4.68 | 3.12 |
| **Year Ended December 31, 2018** | | |
| Fourth Quarter | $ 7.02 | $ 3.46 |
| Third Quarter | 7.34 | 4.65 |
| Second Quarter | 5.87 | 4.32 |
| First Quarter | 6.42 | 5.08 |

**Stockholders**

As of June 5, 2020 we had 70 record holders of our Common Stock.

**Dividends**

We have not paid any cash dividends on shares of our Common Stock. The payment of cash dividends in the future will be dependent upon our revenues and earnings, capital requirements, general financial condition, and is within the discretion of our board of directors.

**Equity Compensation Plan Information**

The following table provides information as of December 31, 2019, with respect to the shares of our Common Stock that may be issued under our existing equity compensation plans.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options and RSUs | Weighted Average Exercise Price of Outstanding Options | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(1) |
|---|---|---|---|
| Equity compensation plans approved by stockholders | 5,247,005 | 4.14 | 2,339,353 |
| Equity compensation plans not approved by stockholders | — | — | — |
| Total | 5,247,005 | 4.14 | 2,339,353 |

(1) The Company currently maintains the 2018 Stock Incentive Plan, which was approved by our board of directors on December 19, 2017 and subsequently approved by a majority of our stockholders by written consent on December 20, 2017. The 2018 Stock Incentive Plan became effective on January 17, 2018 and there were originally 8,323,764 shares of our Common Stock reserved for issuance under our 2018 Stock Incentive Plan.

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**Sale of Unregistered Securities**

There were no unregistered sales of equity securities in 2019 that have not been previously reported in a Quarterly Report on Form 10-Q or Current Report on Form 8-K.

**Issuer Purchases of Equity Securities**

The table below sets forth information with respect to purchases made by or on behalf of us or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of shares of our Common Stock during the period of November 8, 2017 through the year ended December 31, 2019:

| Period | Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1) | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1) |
|---|---|---|---|---|
| **Year Ended December 31, 2017** | | | | |
| Fourth Quarter | 49,300 | $ 4.97 | 49,300 | 4,950,700 |
| **Year Ended December 31, 2018** | | | | |
| First Quarter | — | — | 49,300 | 4,950,700 |
| Second Quarter | 768,693 | 4.86 | 817,993 | 4,182,007 |
| Third Quarter | 225,504 | 4.96 | 1,043,497 | 3,956,503 |
| Fourth Quarter | 1,505,688 | 3.59 | 2,549,185 | 2,450,815 |
| **Year Ended December 31, 2019** | | | | |
| First Quarter | — | — | 2,549,185 | 2,450,815 |
| Second Quarter | 237,962 | 2.51 | 2,787,147 | 2,212,853 |
| Third Quarter | — | — | 2,787,147 | 2,212,853 |
| **Total** | 2,787,147 | $ 3.89 | 2,787,147 | — |

(1) On November 8, 2017, the Company’s board of directors authorized a share buyback program (the “Share Buyback Program”), pursuant to which the Company was authorized to purchase up to 5,000,000 shares of its Common Stock through various means, including, open market transactions, privately negotiated transactions or otherwise. The Share Buyback Program has expired. As of December 31, 2019, 2,787,147 shares had been repurchased under the Share Buyback Program. The Company records treasury stock using the cost method.

**ITEM 6. SELECTED FINANCIAL DATA**

The selected financial data set forth below as of and for the years ended December 31, 2018 and 2017, have been restated to reflect adjustments to our previously issued financial statements as more fully discussed in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, in Note 3, “Restatement of Previously Issued Financial Statements” and in Note 20, “Unaudited Quarterly Financial Data” of the Consolidated Financial Statements included in Item 8 of this Annual Report. The following selected consolidated financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data" of this Annual Report in order to fully understand factors that may affect the comparability of the financial data. The following selected Consolidated Balance Sheet data as of December 31, 2019 and 2018 and selected Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017 are derived from our audited financial statements included in Item 8 of this Annual Report. The historical results do not necessarily indicate results expected for any future period.

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| (in thousands, except share and per share data) | Year Ended December 31, 2019 | 2018 (As Restated) | 2017 (As Restated) | 2016 | 2015 |
|---|---|---|---|---|---|
| **Statements of Operations Information:** | | | | | |
| Revenue | $ 1,562,337 | $ 1,586,222 | $ 1,145,891 | $ 789,926 | $ 805,232 |
| Cost of revenue (exclusive of depreciation and amortization) | 1,224,735 | 1,213,403 | 827,544 | 519,121 | 559,846 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 198,864 | 184,908 | 220,955 | 130,437 | 120,691 |
| Depreciation and amortization | 100,903 | 138,077 | 98,890 | 79,639 | 75,408 |
| Impairment of goodwill and other intangible assets | 349,557 | 48,127 | 69,437 | — | — |
| Related party expense | 9,501 | 12,403 | 33,431 | 10,493 | 8,977 |
| **Operating (loss) income** | (321,223) | (10,696) | (104,366) | 50,236 | 40,310 |
| **Other expense (income), net:** | | | | | |
| Interest expense, net | 163,449 | 155,991 | 129,676 | 109,414 | 108,779 |
| Debt modification and extinguishment costs | 1,404 | 1,067 | 35,512 | — | — |
| Sundry expense (income), net | 969 | (3,271) | 2,295 | 712 | 3,247 |
| Other expense (income), net | 14,429 | (3,030) | (1,297) | — | — |
| **Net loss before income taxes** | (501,474) | (161,453) | (270,552) | (59,890) | (71,716) |
| Income tax (expense) benefit | (7,642) | (8,353) | 61,068 | 11,787 | 26,812 |
| **Net loss** | (509,116) | (169,806) | (209,484) | (48,103) | (44,904) |
| Dividend equivalent on Series A Preferred Stock related to beneficial conversion feature | — | — | (16,375) | — | — |
| Cumulative dividends for Series A Preferred Stock | (3,309) | (3,655) | (2,489) | — | — |
| **Net loss attributable to common stockholders** | (512,425) | (173,461) | (228,348) | (48,103) | (44,904) |
| **Loss per share:** | | | | | |
| Basic | (3.52) | (1.17) | (2.18) | (0.75) | (0.7) |
| Diluted | (3.52) | (1.17) | (2.18) | (0.75) | (0.7) |
| **Weighted average number of shares outstanding (1):** | | | | | |
| Basic | 145,718,936 | 147,773,089 | 104,914,382 | 64,024,557 | 64,024,557 |
| Diluted | 145,718,936 | 147,773,089 | 104,914,382 | 64,024,557 | 64,024,557 |

(1) Excluding in each case the 4,570,734 shares returned to the Company in the first quarter of 2020 in connection with the Appraisal Action.

| (in thousands) | As of December 31, 2019 | 2018 (As Restated) | 2017 (As Restated) | 2016 | 2015 |
|---|---|---|---|---|---|
| **Balance Sheet Data:** | | | | | |
| Cash and cash equivalents | $ 6,198 | $ 36,206 | $ 39,000 | $ 8,361 | $ 16,619 |
| Accounts receivable, net of allowance for doubtful accounts | 261,400 | 270,812 | 229,704 | 138,421 | 145,162 |
| Working capital | (147,056) | (123,502) | (68,634) | (41,404) | 18,162 |
| Total Assets | 1,258,324 | 1,627,823 | 1,717,232 | 969,486 | 960,048 |
| Long-term debt, net of current maturities | 1,398,385 | 1,306,423 | 1,276,094 | 983,502 | 975,142 |
| Total liabilities | 2,001,365 | 1,869,082 | 1,769,029 | 1,309,387 | 1,251,537 |
| Total stockholders' deficit | (743,041) | (241,259) | (51,797) | (339,901) | (291,489) |

Previously filed annual reports on Form 10-K and quarterly reports on Form 10-Q for the periods affected by the restatement have not been amended. Accordingly, investors should no longer rely upon the Company's previously released financial statements for these periods and any earnings releases or other communications relating to these periods, and, for these periods, investors should rely solely on the financial statements and other financial data for the relevant periods included in this Annual Report.

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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

***Forward Looking Statements***

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with a review of the other Items included in this Annual Report and our December 31, 2019 Consolidated Financial Statements included elsewhere in this report. Certain statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" may be deemed to be forward-looking statements. See "Special Note Regarding Forward-Looking Statements."*

**Overview of Restatement**

In this Annual Report on Form 10-K, the Company:

(a) restates its Consolidated Balance Sheets as of December 31, 2018 and the related Consolidated Statements of Operations, Consolidated Statements of Comprehensive Loss, Consolidated Statements of Stockholders' Deficit, and Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2018 and 2017;

(b) restates its "Selected Financial Data" in Item 6 for fiscal years 2018 and 2017; and

(c) restates its Unaudited Quarterly Financial Data for the first three fiscal quarters in the fiscal year ended December 31, 2019 and each fiscal quarter in the fiscal year ended December 31, 2018.

The adjustments made as a result of the restatement are more fully discussed in Note 3, *Restatement of Previously Issued Financial Statements*, of the Notes to Consolidated Financial Statements included in this Annual Report. To further review the effects of the accounting errors identified and the restatement adjustments, see Part II—Item 6—Selected Financial Data in this Annual Report. For a description of the control deficiencies identified by management as a result of the investigation and our internal reviews, and management's plan to remediate those deficiencies, see Part II—Item 9A—Controls and Procedures.

Previously filed annual reports on Form 10-K and quarterly reports on Form 10-Q for the periods affected by the restatement have not been amended. Accordingly, investors should no longer rely upon the Company's previously released financial statements for these periods and any earnings releases or other communications relating to these periods, and, for these periods, investors should rely solely on the financial statements and other financial data for the relevant periods included in this Annual Report. See Note 20, *Unaudited Quarterly Financial Data*, of the Notes to the Consolidated Financial Statements in this Annual Report for the impact of these adjustments on each of the quarterly periods in fiscal 2018 and for the first three quarters of fiscal 2019. Quarterly reports for fiscal 2020 will include restated results for the corresponding interim periods of fiscal 2019.

**Background on the Restatement**

As previously disclosed in the Company's Current Report on Form 8-K filed with the SEC on March 17, 2020, the board of directors of the Company, based on the recommendation of the audit committee and in consultation with management, concluded that, because of errors identified in the Company's previously issued financial statements for the fiscal years ended December 31, 2018 and 2017 and the first three quarters of fiscal 2019, the Co

mpany would restate its previously issued financial statements, including the quarterly data for fiscal years 2019 and 2018 and its selected financial data for the relevant periods.

These errors were discovered during the course of preparing this Annual Report and the audit of the financial results for fiscal 2019. We have determined that these errors were the result of material weaknesses in internal control over financial reporting that are reported in management's report on internal control over financial reporting as of December 31, 2019 in Part II—Item 9A – Controls and Procedures of this Annual Report.

The restated financial statements correct the following errors:

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*Appraisal Action Liability Adjustments*:

- $43.1 million, $40.6 million and $37.8 million understatement of accrued liabilities and total stockholders' deficit, as at September 30, 2019, December 31, 2018 and 2017, respectively, due to applying an incorrect accounting treatment for the obligation to pay the fair market value of the former stockholders' shares under the Appraisal Action.
- $2.4 million, $2.9 million and $1.2 million understatement of loss for the nine months ended September 30, 2019 and for the years ended December 31, 2018 and 2017, respectively, due to the unrecorded interest expense accrual associated with the Company's obligations related to the Appraisal Action. Interest should have been accrued in the relevant periods at the rate set by the Delaware Court of Chancery.

*Outsourced Contract Cost Adjustments*:

- A $5.3 million understatement of loss for the nine months ended September 30, 2019 and a $3.2 million overstatement of loss for the year ended December 31, 2018, due to the incorrect capitalization of employee training related costs during the set-up phase as costs of fulfilling contracts which should have been expensed under ASC 340-40. Additionally, an adjustment of $15.4 million was recorded to increase accumulated deficit as of January 1, 2018 to correct the previously-recorded transition adjustment for costs of fulfilling contracts upon the adoption of ASC 606 and ASC 340-40. These errors resulted in $17.3 million and $12.0 million overstatement of intangible assets, net as of September 30, 2019 and December 31, 2018, respectively.

*Expense Reimbursement Adjustments*:

- A $2.1 million understatement of loss and related party payables for the nine months ended September 30, 2019, due to non-accrual of the obligation to reimburse Ex-Sigma 2 for the discount to the market price on shares sold by Ex-Sigma 2 in a secondary offering in June 2019 and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment.
- A $2.4 million understatement of loss and related party payables for the year ended December 31, 2018, due to non-accrual of the obligation to reimburse Ex-Sigma 2 for the underwriting discount and commission expenses of $2.1 million and an advisory fee of $0.3 million incurred by Ex-Sigma 2 in a secondary offering in April 2018 and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment.
- A $1.5 million overstatement of loss for the nine months ended September 30, 2019, due to an amount paid to Ex-Sigma 2 in July 2019 for the fees incurred in connection with the secondary offering, out of a total reimbursable amount of $4.5 million as discussed in the two bullet points above, was erroneously recorded as selling, general and administrative expenses.
- $1.7 million and $5.2 million understatement of loss for the nine months ended September 30, 2019 and for the year ended December 31, 2018, respectively, due to the unrecorded related party expense accrual associated with the Company's obligation to reimburse Ex-Sigma 2 in connection with premium payments made by Ex-Sigma 2 under the Margin Loan and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment. This error resulted in $6.9 million and $5.2 million understatement of related party payables as of September 30, 2019 and December 31, 2018, respectively.
- $0.5 million and $0.4 million overstatement of selling, general and administrative expenses and understatement of related party expense by the same amount for the nine months ended September 30, 2019 and year ended December 31, 2018, respectively, due to incorrect classification of related party expense as selling, general and administrative expenses. This error had no impact on net loss.

*Revenue Recognition Adjustments*:

- A $4.8 million understatement of loss, for the year ended December 31, 2017, due to incorrect recognition of revenue of $6.4 million and related cost of revenue of $1.6 million in 2017 related to a multiple element

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arrangement that included a software license where vendor specific objective evidence (VSOE) of fair value was not established for the undelivered elements of the arrangement under the previous revenue recognition guidance in ASC 985-605. This error resulted in a $6.4 million understatement of deferred revenue and a $1.6 million understatement of prepaid expenses and other current assets as at December 31, 2017.

- A $1.9 million understatement of revenues and understatement of cost of revenue by the same amount for the nine months ended September 30, 2019, due to incorrect application of the gross vs. net presentation guidance under ASC 606. The Company incorrectly netted the costs of rendering service from the revenue under a contract with one customer. This error had no impact on net loss.

*Cash Flows Classification Adjustments*:

- $0.1 million and $34.5 million understatement of operating cash flows and overstatement of financing cash flows, for the years ended December 31, 2018 and 2017, respectively, due to the incorrect interpretation of ASU 2016-15 (*Classification of Certain Receipts and Cash Payments*) and application on a retrospective basis upon adoption of ASU 2016-15 in 2018.

- $14.3 million, $7.5 million and $11.0 million overstatement of operating cash flows and understatement of investing cash flows, for the nine months ended September 30, 2019 and for the years ended December 31, 2018 and 2017, respectively, due to misclassification of cash flows associated with outsourced contract costs.

*Other Adjustments*:

- In addition to the errors described above, the restated financial statements also include adjustments to correct certain other immaterial errors, including previously unrecorded immaterial

  adjustments identified in audits of prior years' financial statements.

**Overview**

We are a global provider of transaction processing solutions, enterprise information management, document management and digital business process services. Our technology-enabled solutions allow global organizations to address critical challenges resulting from the massive amounts of data obtained and created through their daily operations. Our solutions address the life cycle of transaction processing and enterprise information management, from enabling payment gateways and data exchanges across multiple systems, to matching inputs against contracts and handling exceptions, to ultimately depositing payments and distributing communications. We believe our process expertise, information technology capabilities and operational insights enable our customers' organizations to more efficiently and effectively execute transactions, make decisions, drive revenue and profitability, and communicate critical information to their employees, customers, partners, and vendors.

**History**

We are a former blank check company that completed our initial public offering on January 22, 2015. In July 2017, Exela Technologies, Inc. ("Exela"), formerly known as Quinpario Acquisition Corp. 2 ("Quinpario"), completed its acquisition of SourceHOV Holdings, Inc. ("SourceHOV") and Novitex Holdings, Inc. ("Novitex") pursuant to the business combination agreement dated February 21, 2017 ("Novitex Business Combination"). In conjunction with the completion of the Novitex Business Combination, Quinpario was renamed Exela Technologies, Inc.

The Novitex Business Combination was accounted for as a reverse merger for which SourceHOV was determined to be the accounting acquirer. Outstanding shares of SourceHOV were converted into our Common Stock, presented as a recapitalization, and the net assets of Quinpario were acquired at historical cost, with no goodwill or other intangible assets recorded. The acquisition of Novitex was treated as a business combination under ASC 805 and was accounted for using the acquisition method. The strategic combination of SourceHOV and Novitex formed Exela, which is one of the largest global providers of information processing solutions based on revenues.

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**Basis of Presentation**

This analysis is presented on a consolidated basis. In addition, a description is provided of significant transactions and events that have an impact on the comparability of the results being analyzed. Due to our specific situation, the presented financial information for the years ended December 31, 2019 and 2018 is only partially comparable to the financial information for the year ended December 31, 2017. Since SourceHOV was deemed the accounting acquirer in the Novitex Business Combination consummated on July 12, 2017, the presented financial information for the year ended December 31, 2017 includes the financial information and activities for SourceHOV for the period January 1, 2017 to December 31, 2017 (365 days) as well as the financial information and activities of Novitex for the period July 13, 2017 to December 31, 2017 (172 days). This lack of comparability needs to be taken into account when reading the discussion and analysis of our results of operations and cash flows. Furthermore, the presented financial information for the year ended December 31, 2017 also contains other costs that are directly associated with the Novitex Business Combination, such as professional fees, to support the our new and complex legal, tax, statutory and reporting requirements following the Novitex Business Combination.

**Our Segments**

Our three reportable segments are Information & Transaction Processing Solutions (“ITPS”), Healthcare Solutions (“HS”), and Legal & Loss Prevention Services (“LLPS”). These segments are comprised of significant strategic business units that align our TPS and EIM products and services with how we manage our business, approach our key markets and interact with our customers based on their respective industries.

**ITPS:** Our largest segment, ITPS, provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries. Our major customers include many leading banks, insurance companies, and utilities, as well as hundreds of federal, state and government entities. Our ITPS offerings enable companies to increase availability of working capital, reduce turnaround times for application processes, increase regulatory compliance and enhance consumer engagement.

**HS:** HS operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets. We

serve the top healthcare insurance payers and hundreds of healthcare providers.

**LLPS:** Our LLPS segment provides a broad and active array of support services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters. Our customer base consists of corporate counsel, government attorneys, and law firms.

**Acquisitions**

In April 2018 Exela completed the acquisition of Asterion International Group (“Asterion,” the “Asterion Business Combination”), a well-established provider of technology driven business process outsourcing, document management and business process automation across Europe. The acquisition comes with minimal customer overlap and is strategic to expandi
ng Exela’s European business. Through the acquisition of Asterion, we expect to leverage brand awareness, strengthen margins, and expand the existing Asterion sales channels.

In July 2017, we completed the Novitex Business Combination. SourceHOV was deemed to be the accounting acquirer, and is a leading provider of platform-based enterprise information management and transaction processing solutions primarily for the healthcare, banking and financial services, commercial, public sector and legal industries. Through the acquisition of SourceHOV and Novitex, we expect to realize revenue synergies, leverage brand awareness, strengthen margins, generate greater free cash flow, expand the existing Novitex sales channels, and increase utilization of the existing workforce. We anticipate opportunities for growth through the ability to leverage additional future services and capabilities.

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**Revenues**

ITPS revenues

are primarily generated from a transaction-based pricing model for the various types of volumes processed, licensing and maintenance fees for technology sales, and a mix of fixed management fee and transactional revenue for document logistics and location services. HS revenues are primarily generated from a transaction-based pricing model for the various types of volumes processed for healthcare payers and providers. LLPS revenues are primarily based on time and materials pricing as well as through transactional services priced on a per item basis.

**People**

We draw on the business and technical expertise of our talented and diverse global workforce to provide our customers with high-quality services. Our business leaders bring a strong diversity of experience in our industry and a track record of successful performance and execution.

As of December 31, 2019, we had approximately 22,700 employees globally, with 62% located in Americas and EMEA, and the remainder located primarily in India, the Philippines and China.

Costs associated with our employees represent the most significant expense for our business. We incurred personnel costs of $721.9 million, $687.3 million, and $532.3 million for the years ended December 31, 2019, 2018 and 2017, respectively. The majority of our personnel costs are variable and are incurred only while we are providing our services.

**Facilities**

We lease and o

wn numerous facilities worldwide with larger concentrations of space in Texas, Michigan, Connecticut, California, India, Mexico, the Philippines, and China. Our owned and leased facilities house general offices, sales offices, service locations, and production facilities.

The size of our active property portfolio as of December 31, 2019 was approximately 4.2 million square feet and comprised of 157 leased properties and 7 owned properties.

We believe that our current facilities are suitable and adequate for our current businesses. Because of the interrelation of our business segments, each of the segments uses substantially all of these properties at least in part.

**Key Performance Indicators**

We use a variety of operational and financial measures to assess our performance. Among the measures considered by our management are the following:

- Revenue by segment;
- EBITDA; and
- Adjusted EBITDA.

***Revenue***

We analyze our revenue by comparing actual monthly revenue to internal projections and prior periods across our operating segments in order to assess performance, identify potential areas for improvement, and determine whether segments are meeting management's expectations.

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***EBITDA and Adjusted EBITDA***

We view EBITDA and Adjusted EBITDA as important indicators of performance of our consolidated operations. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integration costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses. See "—Other Financial Information (Non-GAAP Financial Measures)" for more information and a reconciliation of EBITDA and Adjusted EBITDA to net loss, the most directly comparable financial measure calculated and presented in accordance with GAAP.

**Results of Operations**

**Year Ended December 31, 2019, Compared to Year Ended December 31, 2018**

| | Year Ended December 31, | |
|---|---|---|
| | 2019 | 2018 (As Restated) |
| Revenue: | | |
| ITPS | $ 1,234,284 | $ 1,273,647 |
| HS | 256,721 | 228,015 |
| LLPS | 71,332 | 84,560 |
| Total revenue | 1,562,337 | 1,586,222 |
| Cost of revenue (exclusive of depreciation and amortization): | | |
| ITPS | 1,001,655 | 1,010,320 |
| HS | 180,045 | 151,877 |
| LLPS | 43,035 | 51,206 |
| Total cost of revenues | 1,224,735 | 1,213,403 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 198,864 | 184,908 |
| Depreciation and amortization | 100,903 | 138,077 |
| Impairment of goodwill and other intangible assets | 349,557 | 48,127 |
| Related party expense | 9,501 | 12,403 |
| Operating loss | (321,223) | (10,696) |
| Interest expense, net | 163,449 | 155,991 |
| Debt modification and extinguishment costs | 1,404 | 1,067 |
| Sundry expense (income), net | 969 | (3,271) |
| Other expense (income), net | 14,429 | (3,030) |
| Net loss before income taxes | (501,474) | (161,453) |
| Income tax expense | (7,642) | (8,353) |
| Net loss | $ (509,116) | $ (169,806) |

***Revenue***

Our revenue decreased $23.9 million, or 1.5%, to $1,562.3 million for the year ended December 31, 2019 compared to $1,586.2 million for the year ended December 31, 2018. This decrease is primarily related to a decrease in our ITPS segment revenues of $39.4 million and LLPS segment revenue of $13.2 million. The decrease was partially offset by an increase in revenues in the HS segment by $28.7 million. Our ITPS, HS, and LLPS segments constituted 79.0%, 16.4%, and 4.6% of our total revenue, respectively, for the year ended December 31, 2019, compared to 80.3%, 14.4%, and 5.3%, respectively, for the year ended December 31, 2018. The revenue changes by reporting segment were as follows:

ITPS—Revenues decreased $39.4 million, or 3.1%, to $1,234.3 million for the year ended December 31, 2019 compared to $1,273.6 million for the year ended December 31, 2018. The decrease was primarily attributable to the low

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margin contract exit in the third quarter of 2018 and adverse currency impact that was offset partially by the revenue from acquisitions completed in 2018.

HS—Revenues increased $28.7 million, or 12.6%, to $256.7 million for the year ended December 31, 2019 compared to $228.0 million for the year ended December 31, 2018. The increase was primarily attributable to the ramp up of new businesses.

LLPS—Revenues decreased $13.2 million, or 15.6%, to $71.3 million for the year ended December 31, 2019 compared to $84.6 million for the year ended December 31, 2018. The decrease was primarily attributable to lower revenue resulting from legal claims administration services of $11.3 million during the year ended December 31, 2019, compared to the year ended December 31, 2018.

***Cost of Revenue***

Cost of revenue increased $11.3 million, or 0.9%, to $1,224.7 million for the year ended December 31, 2019 compared to $1,213.4 million for year ended December 31, 2018. The increase was primarily attributable to an increase in the HS segment of $28.2 million that was offset by a decrease in the ITPS and LLPS segments of $8.7 million and $8.2 million respectively. The cost of revenue changes by operating segment was as follows:

ITPS—Cost of revenue decreased $8.7 million, or 0.9%, to $1,001.6 million for the year ended December 31, 2019 compared to $1,010.3 million for year ended December 31, 2018. The decrease was attributable to the corresponding revenue decline and flow through of savings that was offset by cost inflation. Cost of revenue as a percentage of revenue increased by 190 basis points from 79.3% for the year ended December 31, 2018 to 81.2% for the year ended December 31, 2019.

HS—Cost of revenue was $180.0 million for the year ended December 31, 2019, up $28.2 million, or 18.5%, from $151.9 million in for the year ended December 31, 2018. The increase was primarily attributable an increase in volumes and ramp up of the healthcare asset acquisition from 2018, including additions to our operational headcount for the large new deals. Cost of revenue as a percentage of revenue increased by 350 basis points from 66.6% for the year ended December 31, 2018 to 70.1% for the year ended December 31, 2019.

LLPS—Cost of revenue decreased $8.2 million, or 16.0%, to $43.0 million for the year ended December 31, 2019 compared to $51.2 million for year ended December 31, 2018. The decrease was primarily attributable to the lower costs on the legal claims administration of $5.8 million as a result of corresponding revenue decline. Cost of revenue as a percentage of revenue remained relatively flat from 60.6% for the year ended December 31, 2018 compared to 60.4% for the year ended December 31, 2019.

***Selling, General and Administrative Expenses (“SG&A”)***

Selling, general, and administrative expenses increased $14.0 million, or 7.5%, to $198.9 million for the year ended December 31, 2019 compared to $184.9 million for the year ended December 31, 2018. The increase was primarily attributable to higher professional and legal expenses.

***Depreciation & Amortization***

Depreciation and amortization expense decreased $37.2 million, or 26.9%, to $100.9 million for the year ended December 31, 2019 compared to $138.1 million for the year ended December 31, 2018. The decrease was primarily attributable to accelerated amortization of trademarks and trade name write off that ended on December 31, 2018.

### Impairment of Goodwill and Other Intangible Assets

Impairment of goodwill and other intangible assets for the years ended December 31, 2019 and 2018 was $349.6 million and $48.1 million respectively. During the three months ended September 30, 2019, the Company made an evaluation based on factors such as changes in the Company’s growth rate and recent trends in the Company’s market

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capitalization, and concluded that a triggering event for an interim impairment analysis had occurred in the third quarter of 2019. As a result of the interim impairment assessment, the Company recorded an impairment charge to goodwill and trade names of $96.2 million and $1.0 million, respectively. Due to continued depressed market capitalization during the three months ended December 31, 2019, another triggering event resulted in additional impairment charge of $252.4 million to goodwill at LLPS and ITPS reporting unit.

***Related Party Expense***

Related party expense decreased $2.9 million, or 23.4%, to $9.5 million for the year ended December 31, 2019 compared to $12.4 million for the year ended December 31, 2018. The decrease was primarily attributable to an overall reduction in the expenses required to be reimbursed to Ex-Sigma 2 pursuant to the terms of the Consent, Waiver and Amendment.

***Interest Expense***

Interest expense increased $7.5 million, or 4.8%, to $163.4 million for the year ended December 31, 2019 compared to $156.0 million for the year ended December 31, 2018. The increase was primarily attributable accrued interest for the Appraisal Action.

***Loss on Extinguishment of Debt***

Loss on extinguishment of debt for the years ended December 31, 2019 and 2018 was $1.4 million and $1.1 million. The Repricing and issuance of the 2019 and 2018 Incremental Term Loans resulted in the partial debt extinguishment, for which Exela recognized $1.4 million and $1.1 million in debt extinguishment costs.

***Sundry Expense (income)***

Sundry expense increased by $4.2 million to $1.0 million for the year ended December 31, 2019 compared to $(3.3) million for the year ended December 31, 2018. The increase was mainly attributable to foreign currency transaction losses associated with exchange rate fluctuations.

***Other Income***

Other income for the years ended December 31, 2019 and 2018 was $(14.4) million and $3.0 million respectively. The decrease of $17.5 million over the prior year period is primarily attributable to the Appraisal Action settlement expenses and an interest rate swap entered into in 2017. The interest rate swap was not designated as a hedge. As such, changes in the fair value of this derivative instrument are recorded directly in earnings.

***Income Tax (Expense) Benefit***

Income tax expense decreased $0.7 million to $7.6 million for the year ended December 31, 2019 compared to $8.4 million for the year ended December 31, 2018. The December 31, 2019 federal tax expense is primarily due to the impact of the TCJA.

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## Results of Operations

**Year Ended December 31, 2018, Compared to Year Ended December 31, 2017**

| | Year Ended December 31, 2018 (As Restated) | Year Ended December 31, 2017 (As Restated) |
|---|---|---|
| Revenue: | | |
| ITPS | $ 1,273,647 | $ 820,677 |
| HS | 228,015 | 233,595 |
| LLPS | 84,560 | 91,619 |
| Total revenue | 1,586,222 | 1,145,891 |
| Cost of revenue (exclusive of depreciation and amortization): | | |
| ITPS | 1,010,320 | 619,694 |
| HS | 151,877 | 152,290 |
| LLPS | 51,206 | 55,560 |
| Total cost of revenues | 1,213,403 | 827,544 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 184,908 | 220,955 |
| Depreciation and amortization | 138,077 | 98,890 |
| Impairment of goodwill and other intangible assets | 48,127 | 69,437 |
| Related party expense | 12,403 | 33,431 |
| Operating loss | (10,696) | (104,366) |
| Interest expense, net | 155,991 | 129,676 |
| Debt modification and extinguishment costs | 1,067 | 35,512 |
| Sundry expense (income), net | (3,271) | 2,295 |
| Other income, net | (3,030) | (1,297) |
| Net loss before income taxes | (161,453) | (270,552) |
| Income tax benefit (expense) | (8,353) | 61,068 |
| Net loss | $ (169,806) | $ (209,484) |

***Revenue***

Our revenue increased $440.3 million, or 38.4%, to $1,586.2 million for the year ended December 31, 2018 compared to $1,145.9 million for the year ended December 31, 2017. This increase is primarily related to an increase in our ITPS segment revenues of $453.0 million, which was primarily attributable to the acquisition of Novitex in 2017. The increase was partially offset by a decrease in revenues in the HS segment and LLPS segment of $5.6 million and $7.2 million, respectively. Our ITPS, HS, and LLPS segments constituted 80.3%, 14.4%, and 5.3% of our total revenue, respectively, for the year ended December 31, 2018, compared to 71.6%, 20.4%, and 8.0%, respectively, for the year ended December 31, 2017. The revenue changes by reporting segment were as follows:

ITPS—Revenues increased $453.0 million, or 55.2%, to $1,273.6 million for the year ended December 31, 2018 compared to $820.6 million for the year ended December 31, 2017. The increase was primarily attributable to acquisitions in 2017 and 2018 which contributed $445.0 million of the increase. The remaining increase in revenue was the result of net increases in services provided to ITPS customers.

HS—Revenues decreased $5.6 million, or 2.4%, to $228.0 million for the year ended December 31, 2018 compared to $233.6 million for the year ended December 31, 2017. The decrease was primarily attributable to a decline in volume from a single customer who lost a contract from one of its customers. The decrease was partially offset by ramp up of new businesses

LLPS—Revenues decreased $7.2 million, or 7.9%, to $84.6 million for the year ended December 31, 2018 compared to $91.6 million for the year ended December 31, 2017. The decrease was primarily attributable to lower revenue resulting from the sale of Meridian Consulting Group, LLC of approximately $1.3 million and lower revenue

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from legal claims administration services of $5.1 million during the year ended December 31, 2018, compared to the year ended December 31, 2017.

***Cost of Revenue***

Cost of revenue increased $385.9 million, or 46.6%, to $1,213.4 million for the year ended December 31, 2018 compared to $827.5 million for year ended December 31, 2017. The increase was primarily attributable to an increase in the ITPS segment of $390.6 million, offset by decreases in the HS and LLPS segments of $0.4 million and $4.3 million, respectively. The cost of revenue changes by operating segment was as follows:

ITPS—Cost of revenue increased $390.6 million, or 63.0%, to $1,010.3 million for the year ended December 31, 2018 compared to $619.7 million for year ended December 31, 2017. The increase was primarily attributable to acquisitions in 2018 and 2017, which contributed $387.6 million.

HS—Cost of revenue decreased $0.4 million, or 0.3%, to $151.9 million for the year ended December 31, 2018 compared to $152.3 million for year ended December 31, 2017. The decrease was due to the decline in volume from a single customer who lost a contract from one of its customers that was offset by an increase attributable to new project ramp costs.

LLPS—Cost of revenue decreased $4.3 million, or 7.8%, to $51.2 million for the year ended December 31, 2018 compared to $55.6 million for year ended December 31, 2017. The decrease was primarily attributable to a decrease in revenues of $1.0 million as a result of the sale of Meridian Consulting Group, LLC and a decrease from the legal claims administration of $2.6 million.

***Selling, General and Administrative Expenses ("SG&A")***

Selling, general, and administrative expenses decreased $36.0 million, or 16.3%, to $184.9 million for the year ended December 31, 2018 compared to $221.0 million for the year ended December 31, 2017. The decrease was primarily attributable to the 2017 expenses for professional fees related to the Novitex Business Combination, which contributed $60.0 million in expense for the year ended December 31, 2017. The decrease is offset by increases attributable to acquisitions in 2018 and 2017 which contributed $13.2 million in expense for the year ended December 31, 2018. The decrease was additionally offset by investments in our strategy to grow revenue and increases in public company and compliance costs.

***Depreciation & Amortization***

Depreciation and amortization expense increased $39.2 million, or 39.6%, to $138.1 million for the year ended December 31, 2018 compared to $98.9 million for the year ended December 31, 2017. The increase was primarily attributable to accelerated amortization of trademarks and trade names resulting in higher amortization expense for the years ended December 31, 2018 compared to the year ended December 31, 2017.

***Impairment of Goodwill and Other Intangible Assets***

Impairment of goodwill and other intangible assets for the years ended December 31, 2018 and 2017 was $48.1 million and $69.4 million, respectively. As a result of declining revenue and a change in our branding and marketing strategy, we quantitatively assessed goodwill and other intangible assets as part of

our annual impairment test. This assessment resulted in an impairment charge of $44.4 million to goodwill at LLPS reporting unit, and $3.7 million related to our trade names intangible assets.

***Related Party Expense***

Related party expense decreased $21.0 million, or 62.9%, to $12.4 million for the year ended December 31, 2018 compared to $33.4 million for the year ended December 31, 2017. The decrease was primarily attributable to the $23.0 million of contract termination and advisory fees to HGM during 2017 in connection with the Novitex Business

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Combination. Additionally, the July 2017 termination of the management agreement with HGM resulted in lower management fees expense of $6.0M for the comparative period. The decrease was offset by an accrual of related party expenses of $8.1 million required to be reimbursed to Ex-Sigma 2 pursuant to the terms of the Consent, Waiver and Amendment.

***Interest Expense***

Interest expense increased $26.3 million, or 20.3%, to $156.0 million for the year ended December 31, 2018 compared to $129.7 million for the year ended December 31, 2017. The increase was primarily attributable to the issuance of new debt in conjunction with the Novitex Business Combination.

***Loss on Extinguishment of Debt***

Loss on extinguishment of debt for the years ended December 31, 2018 and 2017 was $1.1 million and $35.5 million, respectively. The decrease is directly related to the restructuring and Novitex Business Combination in 2017.

***Sundry Expense (income)***

Sundry expense increased by $5.6 million to $(3.3) million for the year ended December 31, 2018 compared to $2.3 million for the years ended December 31, 2017. The increase was mainly attributable to foreign currency transaction losses associated with exchange rate fluctuations.

Other Income

Other income for the years ended December 31, 2018 and 2017 was $3.0 million and $1.3 million, respectively. The interest rate swap was not designated as a hedge. As such, changes in the fair value of the derivative of $2.5 million are recorded directly in earnings.

***Income Tax (Expense) Benefit***

Income tax benefit decreased $69.4 million to $(8.4) million for the year ended December 31, 2018 compared to $61.0 million for the year ended December 31, 2017. The December 31, 2018 federal tax expense is primarily due to the impact of the TCJA.

**Other Financial Information (Non-GAAP Financial Measures)**

We view EBITDA and Adjusted EBITDA as important indicators of performance. We define EBITDA as net income, plus taxes, interest expense, and depreciation and amortization. We define Adjusted EBITDA as EBITDA plus optimization and restructuring charges, including severance and retention expenses; transaction and integration costs; other non-cash charges, including non-cash compensation, (gain) or loss from sale or disposal of assets, and impairment charges; and management fees and expenses.

We present EBITDA and Adjusted EBITDA because we believe they provide useful information regarding the factors and trends affecting our business in addition to measures calculated under GAAP. Additionally, our credit agreement requires us to comply with certain EBITDA related metrics. Refer to—"Liq

uidity and Capital Resources—Indebtedness."

***Note Regarding Non-GAAP Financial Measures***

EBITDA and Adjusted EBITDA are not financial measures presented in accordance with GAAP. We believe that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial performance and results of operations as our board of directors and management use EBITDA and Adjusted EBITDA to assess our financial performance, because it allows them to compare our operating performance on a

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consistent basis across periods by removing the effects of our capital structure (such as varying levels of interest expense), asset base (such as depreciation and amortization) and items outside the control of our management team. Net loss is the

GAAP measure most directly comparable to EBITDA and Adjusted EBITDA. Our non-GAAP financial measures should not be considered as alternatives to the most directly comparable GAAP financial measure. Each of these non-GAAP financial measures has important limitations as analytical tools because they exclude some but not all items that affect the most directly comparable GAAP financial measures. These non-GAAP financial measures are not required to be uniformly applied, are not audited and should not be considered in isolation or as substitutes for results prepared in accordance with GAAP. Because EBITDA and Adjusted EBITDA may be defined differently by other companies in our industry, our definitions of these non-GAAP financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

The following tables present a reconciliation of EBITDA and Adjusted EBITDA to our net loss, the most directly comparable GAAP measure, for the years ended December 31, 2019, 2018, and 2017:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 (As Restated) | 2017 (As Restated) |
| Net Loss | $ (509,116) | $ (169,806) | $ (209,484) |
| Taxes | 7,642 | 8,353 | (61,068) |
| Interest expense | 163,449 | 155,991 | 129,676 |
| Depreciation and amortization | 100,903 | 138,077 | 98,890 |
| EBITDA | (237,122) | 132,615 | (41,986) |
| Optimization and restructuring expenses (1) | 73,936 | 54,235 | 42,525 |
| Transaction and integration costs (2) | 5,703 | 4,121 | 88,935 |
| Non-cash equity compensation (3) | 7,827 | 7,647 | 6,742 |
| Other charges including non-cash (4) | 21,382 | 25,554 | 518 |
| Loss/(Gain) on sale of assets (5) | 301 | (867) | 40 |
| Loss/(Gain) on business disposals (6) | — | 1,363 | (588) |
| Management, board fees and expenses | — | — | 4,153 |
| Debt modification and extinguishment costs | 1,404 | 1,067 | 35,512 |
| Loss/(Gain) on derivative instruments (7) | 4,337 | (1,897) | (1,297) |
| Contract costs (8) | 17,046 | 4,212 | — |
| Dissenting shareholders expense (relating to the Appraisal Action) | 10,431 | — | — |
| Impairment of goodwill and other intangible assets | 349,557 | 48,127 | 69,437 |
| Adjusted EBITDA | 254,802 | 276,177 | 203,991 |

(1) Adjustment represents net salary and benefits associated with positions, current vendor expenses and existing lease contracts that are part of the on-going savings and productivity improvement initiatives in process transformation, customer transformation and post-merger or acquisition integration.

(2) Represents costs incurred related to transactions for completed or contemplated transactions during the period.

(3) Represents the non-cash charges related to restricted stock units and options that vested during the year at Ex-Sigma (the sole equity holder of Ex-Sigma 2) in the case of the SourceHOV 2013 Long Term Incentive Plan assumed by it in connection with the Novitex Business Combination and the Company under the 2018 Stock Incentive Plan.

(4) Represents fair value adjustments to deferred revenue established as part of purchase accounting and other non-cash charges. Other charges include severance, retention bonus, facility consolidation and other transition costs.

(5) Represents a loss/(gain) recognized on the disposal of property, plant, and equipment and other assets.

(6) Represents a loss/(gain) recognized on the disposal of noncore-business assets.

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(7) Represents the impact of changes in the fair value of an interest rate swap entered into during the fourth quarter of 2017.

(8) Represents costs incurred on new projects, contract start-up costs and project ramp costs.

**Liquidity and Capital Resources**

**Overview**

Our primary source of liquidity is cash generated from operating activities, supplemented as necessary on a short-term basis by borrowings against our senior secured revolving credit facility and accounts receivable securitization facility. We believe our current level of cash and short-term financing capabilities along with future cash flows from operations are sufficient to meet the needs of the business. Under ASC Subtopic 205-40, *Presentation of Financial Statements—Going Concern* ("ASC 205-40"), the Company has the responsibility to evaluate whether conditions and/or events raise substantial doubt about its ability to meet its future financial obligations as they become due within one year after the date that the financial statements are issued. The Company believes management's plans alleviate the substantial doubt about the entity's ability to continue as a going concern for at least twelve months from the date that the accompanying financial statements included elsewhere in this Form 10-K were issued. Going concern matters are more fully discussed in Note 2, *Basis of Presentation and Summary of Significant Accounting Policies*.

We currently expect to spend approximately $20.0 to $25.0 million on total capital expenditures over the next twelve months. We believe that our operating cash flow and available borrowings under our credit facility will be sufficient to fund our operations for at least the next twelve months.

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under our senior secured credit facilities (the "Repricing Term Loans"). The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement (the "Credit Agreement").

On July 13, 2018, the Company borrowed a further $30.0 million pursuant to incremental term loans under the Credit Agreement. On April 16, 2019, the Company borrowed an additional $30.0 million pursuant to incremental term loans under the Credit Agreement. The proceeds of these incremental term loans (collectively, the "Incremental Term Loans") were used to replace the cash spent for acquisitions, pay related fees, expenses and related borrowings and for general corporate purposes.

The Repricing Term Loans and the Incremental Term Loans bear interest at a rate per annum consisting of, at the Company's option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.0% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.5%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.0%, in each case plus an applicable margin of 6.5% for LIBOR loans and 5.5% for base rate loans. The Repricing Term Loans and the Incremental Term Loans will mature on July 12, 2023.

At December 31, 2019, cash and cash equivalents totaled $14.1 million and we had availability of $14.2 million under our senior secured revolving credit facility.

The Company is pursuing a debt reduction and liquidity improvement initiative that contemplates the pursuit of the sale of certain non-core businesses that are not central to the Company's long-term strategic vision. The disposition of those businesses would reduce indebtedness and enhance the Company's ability to focus on its core businesses. The Company has retained financial advisors to assist with the sale of select assets. As part of the initiative, the Company has taken steps to increase its liquidity and its overall financial flexibility. The Company expects to use the net proceeds from the initiative for the repayment of debt, with a target reduction of $150.0 to $200.0 million. The Company has set a two-year timetable for completion of the initiative. There can be no assurance that the initiative or any particular element of the initiative will be consummated or will achieve its desired result.

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On January 10, 2020 certain subsidiaries of the Company entered into a $160.0 million accounts receivable securitization facility with a five year term (the "A/R Facility"). The Company used the proceeds of the initial borrowings to repay outstanding revolving borrowings under the Company's senior credit facility and to provide additional liquidity and funding for the ongoing business needs of the Company and its subsidiaries.

On March 16, 2020, the Company and its indirect wholly owned subsidiaries Merco Holdings, LLC and SourceHOV Tax, LLC ("SourceHov Tax") entered into a Membership Interest Purchase Agreement (the "TBG Purchase Agreement") with Gainline Source Intermediate Holdings LLC. Pursuant to the TBG Purchase Agreement, on March 16, 2020, Gainline Source Intermediate Holdings LLC acquired all of the outstanding membership interests of SourceHov Tax for a price of $40.0 million, subject to adjustment as set forth in the TBG Purchase Agreement.

On March 26, 2020, the Delaware Court of Chancery entered a judgment against one of our subsidiaries in the amount of $57.7 million inclusive of costs and interest arising out of the Appraisal Action, which judgment will continue to accrue interest, until paid, at the legal rate, compounded quarterly. On May 7, 2020, we filed a motion for new trial in relation to share count. Following the Court's decision on the motion for new trial, SourceHOV has the right to appeal the judgment. However, at present the judgment has not been stayed, and we expect the petitioners to seek to enforce the judgment. If we are forced to pay the judgment (or bond the judgment pending an appeal, which will likely require cash collateral), such action could have a material adverse effect on our liquidity and/or cause our lenders to take action adverse to us.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. The Company is currently evaluating the impact of the CARES Act, and at present expects that the refundable payroll tax credits and deferment of employer side social security payments provisions of the CARES Act will result in a material cash benefit to the Company. The Company will also defer certain payroll, social security and value added taxes in various European jurisdictions, as permitted under the recently enacted COVID-19 relief measures.

On May 18, 2020, the Company amended the Credit Agreement to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020. Pursuant to the amendment, the Company also amended the Credit Agreement to, among other things: restrict the borrower and its subsidiaries' ability to designate or invest in unrestricted subsidiaries; incur certain debt; create certain liens; make certain investments; pay certain dividends or other distributions on account of its equity interests; make certain asset sales or other dispositions (or utilize the proceeds of certain asset sales to reinvest in the business); or enter into certain affiliate transactions pursuant to the negative covenants under the Credit Agreement. Further, pursuant to the amendment, the borrower under the Credit Agreement is also required to maintain a minimum Liquidity (as defined in the amendment) of $35.0 million. On May 21, 2020, the Company also amended the A/R Facility to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020. In the event the Company delivers the annual and quarterly financial statements described above within the time frames stated within such agreements (which the Company believes it has now satisfied with respect to the annual financial statements, but not with respect quarterly financial statements), the Company will, upon delivery of such financial statements, be in compliance with the Credit Agreement, the indenture for its outstanding Notes and the A/R Facility with respect to the financial statement delivery requirements set forth therein. See those certain Current Reports on Form 8-K, filed by the Company on May 21, 2020 and May 22, 2020 for additional information on the amendments described above.

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**Cash Flows**

The following table summarizes our cash flows for the periods indicated:

| | Year Ended December 31, 2019 | 2018 (As Restated) | 2017 (As Restated) |
|---|---|---|---|
| Cash flows (used in) provided by operating activities | $ (63,851) | $ 23,600 | $ 51,777 |
| Cash flows (used in) provided by investing activities | (25,182) | (58,752) | (441,382) |
| Cash flows (used in) provided by financing activities | 59,139 | (2,605) | 436,413 |
| Subtotal | (29,894) | (37,757) | 46,808 |
| Effect of exchange rates on cash | 139 | 122 | 429 |
| Net increase/(decrease) in cash | (29,755) | (37,635) | 47,237 |

**Analysis of Cash Flow Changes between the years ended December 31, 2019, December 31, 2018, and December 31, 2017**

Operating Activities—Net cash used by operating activities was $63.9 million for the year ended December 31, 2019, compared to $23.6 million cash provided for the year ended December 31, 2018. The decrease of $87.5 million in cash flow from operating activities was primarily driven by increase in operating loss by $49.2 million including $35.2 million lower Gross profit and $14.0 million higher selling, general and administrative expenses in 2019 as compared to 2018. “Gross profit” is defined as revenue less cost of revenue (exclusive of depreciation and amortization). The rest of the decline was driven mainly by working capital items including $13.7 million pay down of accounts payables and $13.6 million pay down of related party payables as compared to 2018.

Net cash provided by operating activities was $23.6 million for the year ended December 31, 2018, compared to $47.1 million for the year ended December 31, 2017. The decrease of $23.5 million in cash flow from operating activities was primarily driven by higher cash interest paid as compared to 2017 and an increase in accounts receivables due to higher revenue and related party payables.

Investing Activities—Net cash used in investing activities was $25.2 million for the year ended December 31, 2019, compared to $58.8 million for the year ended December 31, 2018. The decrease of $33.6 million in cash used in investing activities was primarily due to a decrease in cash spent on acquisitions compared to previous year (in 2018 Company made three acquisitions in Europe and acquired certain healthcare assets) as well as lower capital expenditures to add Property, Plant & Equipment.

Net cash used in investing activities was $58.8 million for the year ended December 31, 2018, compared to $441.4 million for the year ended December 31, 2017. The decrease of $382.5 million in cash used in investing activities was primarily due to a decrease in cash paid related to the Novitex Business Combination offset by cash spent on 2018 acquisitions.

Financing Activities—Net cash provided by financing activities was $59.1 million for the year ended December 31, 2019, compared to cash used by financing activities of $2.6 million for the year ended December 31, 2018. The increase of approximately $62.0 million in cash provided by financing activities was primarily due to $65 million of revolver draw during 2019.

Net cash used in financing activities was $2.6 million for the year ended December 31, 2018, compared to cash provided by financing activities of $441.1 million for the year ended December 31, 2017. The decrease of $443.7 million in cash provided by financing activities was primarily due to the 2017 retirement of the old credit facilities and proceeds from the new credit facilities and proceeds from the issuance of stock in connection with the Novitex Business Combination versus 2018.

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**Indebtedness**

In connection with the Novitex Business Combination, we acquired debt facilities and issued notes totaling $1.4 billion. Proceeds from the indebtedness were used to pay off credit facilities existing immediately before the Novitex Business Combination.

*Senior Credit Facilities*

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the “Credit Agreement”) providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, (i) a $350.0 million senior secured term loan maturing July 12, 2023 with an original issue discount of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022. The Credit Agreement provided for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company’s option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility was 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility was 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity.

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the “Repricing”). The Repricing was accomplished pursuant to a First Amendment to First Lien Credit Agreement (the “First Amendment”), dated as of July 13, 2018, by and among Exela Intermediate Holdings LLC, the Company, each “Subsidiary Loan Party” listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto, whereby the Company borrowed $343.4 million of refinancing term loans (the “Repricing Term Loans”) to refinance the Company’s existing senior secured term loans. The Repricing Term Loans bear interest at a rate per annum of, at the Company’s option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.0% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.5%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.0%, in each case plus an applicable margin of 6.5% for LIBOR loans and 5.5% for base rate loans. The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the First Lien Credit Agreement, by and among Exela Intermediate Holdings, LLC, the Company, Royal Bank of Canada, as administrative agent and collateral agent, and each of the lenders party thereto. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans. As of December 31, 2019, and 2018 the interes
t rate applicable for the first lien senior secured term loan was 8.38% and 9.38%.

On July 13, 2018, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the “2018 Incremental Term Loans”) under the First Amendment to the Credit Agreement. The proceeds of the 2018 Incremental Term Loans were used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment.

On April 16, 2019, the Company successfully borrowed a further $30.0 million pursuant to incremental term loans (the “2019 Incremental Term Loans”, and, together with the 2018 Incremental Terms Loans, the “Incremental Term Loans”) under the Second Amendment to the Credit Agreement. The proceeds of the 2019 Incremental Term Loans were used to replace cash spent for acquisitions, pay related fees, expenses and related borrowings for general corporate purposes.

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On May 18, 2020, the Company amended the Credit Agreement to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020. Pursuant to the amendment, the Company also agreed to amend the Credit Agreement to, among other things: restrict the borrower and its subsidiaries' ability to designate or invest in unrestricted subsidiaries; incur certain debt; create certain liens; make certain investments; pay certain dividends or other distributions on account of its equity interests; make certain asset sales or other dispositions (or utilize the proceeds of certain asset sales to reinvest in the business); or enter into certain affiliate transactions pursuant to the negative covenants under the Credit Agreement. In addition, pursuant to the amendment, the borrower under the Credit Agreement is also required to maintain a minimum Liquidity (as defined in the amendment) of $35.0 million.

The Incremental Term Loans bear interest at a rate per annum that is the same as the Repricing Term Loans. The Incremental Term Loans will mature on July 12, 2023, the same maturity date as the Repricing Term Loans.

The Company may voluntarily repay the Repricing Term Loans and the Incremental Term Loans (collectively, the "Term Loans") at any time, without prepayment premium or penalty, except in connection with a repricing event as described in the following sentence, subject to customary "breakage" costs with respect to LIBOR rate loans.

Other than as described above, the terms, conditions and covenants applicable to the Incremental Term Loans are consistent with the terms, conditions and covenants that were applicable to the Repricing Term Loans under the Credit Agreement. As of December 31, 2019, the Company was in compliance with all covenants required under these senior credit facilities.

*Letters of Credit*

As of December 31, 2019 and December 31, 2018, we had outstanding irrevocable letters of credit totaling approximately $20.6 million under the revolving credit facility.

## Senior Secured Notes

Upon the closing of the Novitex Business Combination on July 12, 2017, the Company issued $1.0 billion in aggregate principal amount of 10.0% First Priority Senior Secured Notes due 2023 (the "Notes"). The Notes are guaranteed by certain subsidiaries of the Company. The Notes bear interest at a rate of 10.0% per year. The Company pays interest on the Notes on January 15 and July 15 of each year, commencing on January 15, 2018. The Notes are guaranteed by subsidiary guarantors pursuant to a supplemental indenture. The Notes will mature on July 15, 2023. As of December 31, 2019, the Company was in compliance with all covenants required under the Notes.

*Accounts Receivables Securitization Facility*

On January 10, 2020 certain subsidiaries of the Company entered into a $160.0 million accounts receivable securitization facility with a five year term. The Company used the proceeds of the initial borrowings to repay outstanding revolving borrowings under the Company's senior credit facility and to provide additional liquidity and funding for the ongoing business needs of the Company and its subsidiaries. On May 21, 2020, the Company amended the A/R Facility to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020.

**Potential Future Transactions**

We may, from time to time explore and evaluate possible strategic transactions, which may include joint ventures, as well as business combinations or the acquisition or disposition of assets. In order to pursue certain of these opportunities, additional funds will likely be required. Subject to applicable contractual restrictions, to obtain such financing, we may seek to use cash on hand, borrowings under our revolving credit facilities, or we may seek to raise additional debt or equity financing through private placements or through underwritten offerings. There can be no assurance that we will enter into additional strategic transactions or alliances, nor do we know if we will be able to obtain the necessary financing for transactions that require additional funds on favorable terms, if at all. In addition,

pursuant to the Registration Rights Agreement that we entered into in connection with the closing of the Novitex Business Combination, certain of our stockholders have the right to demand underwritten offerings of our Common Stock. We may from time to time in the future explore, with certain of those stockholders the possibility of an underwritten public offering of our Common Stock held by those stockholders. There can be no assurance as to whether or when an offering may be commenced or completed, or as to the actual size or terms of the offering.

**Critical Accounting Policies and Estimates**

The preparation of financial statements requires the use of judgments and estimates. Our critical accounting policies are described below to provide a better understanding of how we develop our assumptions and judgments about future events and related estimations and how they can impact our financial statements. A critical accounting estimate is one that requires subjective or complex estimates and assessments, and is fundamental to our results of operations. We base our estimates on historical experience and on various other assumptions we believe to be reasonable according to the current facts and circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We believe the current assumptions, judgments and estimates used to determine amounts reflected in our consolidated financial statements are appropriate; however, actual results may differ under different conditions. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included in this document.

*Goodwill and other intangible assets:* Goodwill and other intangible assets are initially recorded at their fair values. Goodwill represents the excess of the purchase price of acquisitions over the fair value of the net assets acquired. Our goodwill at December 31, 2019 and December 31, 2018 was $358.5 million and $708.3 million, respectively. Goodwill and other intangible assets not subject to amortization are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Intangible assets with finite useful lives are amortized either on a straight-line basis over the asset's estimated useful life or on a basis that reflects the pattern in which the economic benefits of the intangible assets are realized.

*Impairment of goodwill, long-lived and other intangible assets:* Long-lived assets, such as property and equipment and finite-lived intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Recoverability is measured by a comparison of their carrying amount to the estimated undiscounted cash flows to be generated by those assets. If the undiscounted cash flows are less than the carrying amount, we record impairment losses for the excess of the carrying value over the estimated fair value. Fair value is determined, in part, by the estimated cash flows to be generated by those assets. Our cash flow estimates are based upon, among other things, historical results adjusted to reflect our best estimate of future market rates, and operating performance. Development of future cash flows also requires us to make assumptions and to apply judgment, including timing of future expected cash flows, using the appropriate discount rates, and determining salvage values. The estimate of fair value represents our best estimates of these factors, and is subject to variability. Assets are generally grouped at the lowest level of identifiable cash flows, which is the reporting unit level for us. Changes to our key assumptions related to future performance and other economic factors could adversely affect our impairment valuation.

We conduct our annual goodwill impairment tests on October 1st of each year, or more frequently if indicators of impairment exist. When performing the annual impairment test, we have the option of performing a qualitative or quantitative assessment to determine if an impairment has occurred. If a qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we would be required to perform a quantitative impairment test for goodwill. A quantitative test requires comparison of fair value of the reporting unit to its carrying value, including goodwill. We use a combination of the Guideline Public Company Method of the Market Approach and the Discounted Cash Flow Method of the Income Approach to determine the reporting unit fair value. For the Guideline Public Company Method, our annual impairment test utilizes valuation multiples of publicly traded peer companies. For the Discounted Cash Flow Method, our annual impairment test utilizes discounted ca

sh flow projections using market participant weighted average cost of capital calculation. If the fair value of goodwill at the reporting unit level is less than its carrying value, an impairment loss is recorded for the amount by which a reporting unit's carrying amount exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. During the third quarter of 2019, the Company concluded that a triggering event for an interim impairment analysis had occurred as discussed above. As part of the interim impairment assessment performed on September 3
0, 2019, it was determined that

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the increase in the discount rate applied in the valuation was required to reflect current market dynamics and company-specific risk. This higher discount rate, in conjunction with revised long-term projections, resulted in lower than previously projected discounted long-term future cash flows for the reporting units which reduced the estimated fair value to below carrying value. As a result of the interim impairment assessment in the third quarter, the Company recorded an impairment charge of $87.9 million (as restated) and $8.3 million to goodwill at ITPS and LLPS reporting units, respectively. The Company did not perform a separate annual impairment test as of October 1, 2019 as the impairment test performed during the quarter-ended September 30, 2019 was one day from the annual impairment test date. Additionally, later during the fourth quarter of 2019, the Company conducted its annual budgeting process along with an update to its long-range plan. Following the completion of that process, the Company made an evaluation based on factors such as changes in the Company's growth rate and recent trends in the Company's market capi
talization, concluding that a second triggering event for an impairment analysis had occurred. As a result, we performed another quantitative impairment test as of December 31, 2019, resulting in an additional goodwill impairment charge of $229.7 million and $22.7 million to goodwill at ITPS and LLPS reporting units, respectively. Therefore, as a result of these two impairment assessments in the third and fourth quarters of 2019, a total impairment charge of $348.6 was recorded to goodwill for the year ended December 31, 2019.

Application of the goodwill impairment test requires judgment, including the identification of reporting units, allocation of assets and liabilities to reporting units, and determination of fair value. The determination of reporting unit fair value is sensitive to the amount of Revenue and EBITDA generated by us, as well as the Revenue and EBITDA market multiples used in the calculation. Additionally, the fair value is sensitive to changes in the valuation assumptions such as expected income tax rate, risk-free rate, asset beta, and various risk premiums. Unanticipated changes, including immaterial revisions, to these assumptions could result in a provision for impairment in a future period. Given the nature of these evaluations and their application to specific assets and time frames, it is not possible to reasonably quantify the impact of changes in these assumptions.

In the process of reconciling the fair values of the Company's reporting units to its overall market capitalization, the Company used a combination of both quantitative and qualitative considerations, arriving at the implied control premium of 31.3%. The implied control premium was computed using the Company's closing stock price as of December 31, 2019. Further reductions in our stock price could result in additional goodwill impairment charges in the future due to the need to reconcile to market capitalization.

_Revenue:_ We account for revenue in accordance with ASC 606. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. Revenue is measu
red as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. All of our material sources of revenue are derived from contracts with customers, primarily relating to the provision of business and transaction processing services within each of our segments. We do not have any significant extended payment terms, as payment is received shortly after goods are delivered or services are provided. *Refer to Note 2—Basis of Presentation and Summary of Significant Accounting Policies* for additional information regarding our revenue recognition policy.

_Income Taxes:_ We account for income taxes by using the asset and liability method. We account for income taxes regarding uncertain tax positions and recognize interest and penalties related to uncert

ain tax positions in income tax benefit/(expense) in the consolidated statements of operations.

The Tax Cuts and Jobs Act ("TCJA") was signed by the President of the United States and enacted into law on December 22, 2017. The TCJA significantly changes U.S. tax law by reducing the U.S. corporate income tax rate to 21% from 35%, adopting a territorial tax regime, creating new taxes on certain foreign sourced earnings and imposing a one-time transition tax on the undistributed earnings of certain non-U.S. subsidiaries.

Accounting Standards Codification Topic 740, Income Taxes ("ASC 740") requires companies to account for

the tax effects of changes in income tax rates and laws in the period in which legislation is enacted (December 22, 2017). ASC 740 does not specifically address accounting and disclosure guidance in connection with the income tax effects of the TCJA. Consequently, on December 22, 2017, the Securities and Exchange Commission staff issued Staff Accounting

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Bulletin No. 118 ("SAB 118"), to address the application of ASC 740 in the reporting period that includes the date the TCJA was enacted. SAB 118 allows companies a reasonable period of time to complete the accounting for the income tax effects of the TCJA.

Deferred income taxes are recognized on the tax consequences of temporary differences by applying enacted statutory tax rates applicable in future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, as determined under tax laws and rates. A valuation allowance is provided when it is more likely than not that all or some portion of the deferred tax assets will not be realized. Due to numerous ownership changes, we are subject to limitations on existing net operating losses under Section 382 of the Internal Revenue Code (the "Code"). In the event we determine that we would be able to realize deferred tax assets that have valuation allowances established, an adjustment to the net deferred tax assets would be recognized as a component of income tax expense through continuing operations.

We engage in transactions (such as acquisitions) in which the tax consequences may be subject to uncertainty and examination by the varying taxing authorities. Significant judgment is required by us in assessing and estimating the tax consequences of these transactions. While our tax returns are prepared and based on our interpretation of tax laws and regulations, in the normal course of business the tax returns are subject to examination by the various taxing authorities. Such examinations may result in future assessments of additional tax, interest and penalties. For purposes of our income tax provision, a tax benefit is not recognized if the tax position is not more likely than not to be sustained based solely on its technical merits. Considerable judgment is involved in determining which tax positions are more likely than not to be sustained.

*Business Combinations:* We allocate the total cost of an acquisition to the underlying assets based on their respective estimated fair values. Determination of fair values involves significant estimates and assumptions about highly subjective variables, including future cash flows, discount rates, and asset lives. The estimates of the fair values of assets and liabilities acquired are based upon assumptions believed to be reasonable and, when appropriate, include assistance from independent third-party valuation firms.

Because we are primarily a services business, our acquisitions typically result in significant amounts of goodwill and other intangible assets. Fair value estimates and calculations for these acquisitions will affect the amount of amortization expense, or possible impairment related charges recognized in future periods. We base our fair value estimates on assumptions we believe are reasonable, but recognize that the assumptions are inherently uncertain.

**JOBS Act**

On April 5, 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, relax certain reporting requirements for qualifying public companies. We had previously elected to delay the adoption of new or revised accounting standards as an emerging growth company; however, we no longer qualify as an emerging growth company and will be required to comply with new or revised accounting standards using public company effective dates.

**Recently Adopted and Recently Issued Accounting Pronouncements**

See Note 2 to the consolidated financial statements.

**Internal Controls and Procedures**

As a publicly traded company, we are required to comply with the SEC's rules implementing Section 302 and 404 of the Sarbanes-Oxley Act, which require management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting. For management's assessment of internal control over financial reporting required by Item 308(a) of Regulation S-K for the year ended December 31, 2019 see Part II—Item 9A – Controls and Procedures for management's report on the effectiveness of internal controls.

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**Off Balance Sheet Arrangements**

At December 31, 2019 we had no material off balance sheet arrangements, except letters of credit described above under Liquidity and Capital Resources. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements.

The HGM Group and other former SourceHOV equity holders formed Ex-Sigma and its wholly-owned subsidiary, Ex-Sigma 2, to hold the Exela shares to be issued to SourceHOV as merger consideration upon the closing of the Novitex Business Combination and to invest in Exela immediately prior to the closing. Ex-Sigma 2 secured additional PIPE financing in the form of a $55.8 million loan (the "Margin Loan") that was used to purchase additional common and preferred shares from the Company to help meet the minimum cash requirements needed to close the Novitex Business Combination. As a result of these transactions, the Company issued 84,912,500 shares of Common Stock to Ex-Sigma 2 at the closing, which represented approximately 54.9% ownership in the Company at that time and were pledged as collateral for the Margin Loan.

The Company determined that Ex-Sigma was a variable interest entity and that the Company had a variable interest in Ex-Sigma through an expense reimbursement arrangement related to the Margin Loan and contained in the Consent, Waiver and Amendment. The Consent, Waiver and Amendment provided among other things for the Company to reimburse Ex-Sigma for costs and fees related to the maintenance of the Margin Loan, other than payments of principal, interest and original issue discount.

The Company was not the primary beneficiary because the Company did not have the power to direct the activities that most significantly impacted the economic performance of Ex-Sigma. Accordingly, the Company did not consolidate the financial statements of Ex-Sigma and did not have any assets or liabilities related to Ex-Sigma and the Company did not have an investment in Ex-Sigma. The Company reaffirmed its assessment as of June 8, 2020.

Ex-Sigma 2 paid off the balance of the Margin Loan as of December 31, 2019, and as such the maximum exposure to loss as a result of the Company's involvement with Ex-Sigma is $0. Ex-Sigma 2 distributed the shares held by it during the first quarter of 2020 and is no longer a shareholder of Exela. Ex-Sigma and Ex-Sigma 2 ceased to be variable interest entities upon the distribution that occurred on February 21, 2020.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

**Quantitative and Qualitative Disclosure About Market Risk**

**Interest Rate Risk**

At December 31, 2019, we had $1,514.8 million of debt outstanding, with a weighted average interest rate of 9.5%. Interest is calculated under the terms of our credit agreement based on the greatest of certain specified base rates plus an applicable margin that varies based on certain factors. Assuming no change in the amount outstanding, the impact on interest expense of a 1% increase or decrease in the assumed weighted average interest rate would be approximately $15.1 million per year. In order to mitigate interest rate fluctuations with respect to term loan borrowings under the Credit Agreement, in November 2017, we entered into a three year one-month LIBOR interest rate swap contract with a notional amount of $347.8 million, which at the time was the remaining principal balance of the term loan. The swap contract swaps out the floating rate interest risk related to the LIBOR with a fixed interest rate of 1.9275% effective January 12, 2018.

The interest rate swap, which is used to manage our exposure to interest rate movements and other identified risks, was not designated as a hedge. As such, changes in the fair value of the derivative are recorded directly to other expense (income), net. Other expense (income), net includes a loss of $4.3 million and a gain of $2.5 million related to changes in the fair value of the interest rate swap for the year ended December 31, 2019 and 2018, respectively.

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**Foreign Currency Risk**

We are exposed to foreign c

urrency risks that arise from normal business operations. These risks include transaction gains and losses associated with intercompany loans with foreign subsidiaries and transactions denominated in currencies other than a location's functional currency. Contracts are denominated in currencies of major industrial countries.

**Market Risk**

We are exposed to market risks primarily from changes in interest rates and foreign currency exchange rates. We do not use derivatives fo

r trading purposes, to generate income or to engage in speculative activity.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are included herein:

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**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors
Exela Technologies, Inc.:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Exela Technologies, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, stockholders' deficit, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated June 8, 2020 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

*Restatement of Previously Issued Financial Statements*

As discussed in Note 3 to the consolidated financial statements, the 2018 and 2017 financial statements have been restated to correct misstatements.

*Change in Accounting Principles*

As discussed in Notes 2 and 7 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standards Codification Topic 842*, Leases.*

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for revenue as of January 1, 2018 due to the adoption of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2013.

Detroit, Michigan
June 8, 2020

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**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors
Exela Technologies, Inc.:

*Opinion on Internal Control Over Financial Reporting*

We have audited Exela Technologies, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weaknesses, described below, on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadw

ay Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, stockholders' deficit, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dat

ed June 8, 2020 expressed an unqualified opinion on those consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

- The Company did not design, implement, and operate effective process-level control activities related to order-to-cash (including revenue, customer deposits, accounts receivable, deferred revenue, and cost to obtain a contract), procure-to-pay (including operating expenses, accounts payable, and accrued liabilities), hire-to-pay (including compensation expense and accrued liabilities), leases (including accounting for the adoption of the new lease standard, right-of-use asset, and lease liability), goodwill, restricted cash, share based compensation, journal entries and preparation of the consolidated financial statements, and other financial reporting processes, as well as accounting for signifi
  cant unusual transactions.

- The Company did not design, implement, and operate effective process-level control activities related to the approval, authorization, and disclosure of related party transactions.
- The Company did not design, implement
  , and operate effective general information technology controls (GITCs) over user and privileged access to information technology (IT) systems at multiple components in order to adequately restrict access to appropriate finance and IT personnel and enforce appropriate segregation of duties. As a result, process-level automated control activities and manual control activities that are dependent upon information derived from IT systems were also ineffective.

- There was not sufficient oversight and governance from the Board of Directors in the design, implementation, and execution of internal control over financial reporting.
- The Company did not sufficiently establish structures, reporting lines, and appropriate authorities and responsibilities.
- The Company did not sufficiently attract, develop and retain competent resources, and hold them accountable for their internal control responsibilities.
- Financial reporting objectives were not clearly specified to enable the identification and assessment of risks, including complying with applicable accounting standards.

- The risk assessment process failed to identify and assess risks of misstatement, including fraud risks, to ensure controls were designed and implemented to respond to those risks.
- Changes that could impact the system of internal controls were not identified and assessed.
- Relevant and quality information to support the functioning of internal controls was not consistently generated or used by the Company to support the operation of internal controls.

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- Internal communication of information necessary to support the functioning of internal control was not sufficient.
- Communication with external parties on matters affecting the functioning of internal control was not complete.
- The Company did not sufficiently select, develop, and perform ongoing evaluations to determine the components of internal control are present and functioning.
- The evaluation and communication of internal control deficiencies, including monitoring corrective actions, were not performed in a timely manner.

The material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2019 consolidated financial statements, and this report does not affect our report on those consolidated financial statements.

*Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

*Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Detroit, Michigan
June 8, 2020

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Balance Sheets**
**For the years ended December 31, 2019 and 2018**
**(in thousands of United States dollars except share and per share amounts)**

| | December 31, | |
|---|---|---|
| | **2019** | **2018 (As Restated)** |
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 6,198 | $ 36,206 |
| Restricted cash | 7,901 | 7,648 |
| Accounts receivable, net of allowance for doubtful accounts of $4,975 and $4,359, respectively | 261,400 | 270,812 |
| Related party receivables | 716 | — |
| Inventories, net | 19,047 | 16,220 |
| Prepaid expenses and other current assets | 23,663 | 24,937 |
| **Total current assets** | **318,925** | **355,823** |
| Property, plant and equipment, net of accumulated depreciation of $176,995 and $154,060, respectively | 113,637 | 132,986 |
| Operating lease right-of-use assets, net | 93,627 | — |
| Goodwill | 359,771 | 708,258 |
| Intangible assets, net | 342,443 | 395,020 |
| Deferred income tax assets | 12,032 | 16,345 |
| Other noncurrent assets | 17,889 | 19,391 |
| **Total assets** | $ **1,258,324** | $ **1,627,823** |
| **Liabilities and Stockholders' Equity (Deficit)** | | |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payables | $ 86,167 | $ 99,853 |
| Related party payables | 1,740 | 15,363 |
| Income tax payable | 352 | 1,996 |
| Accrued liabilities | 121,553 | 107,355 |
| Accrued compensation and benefits | 48,574 | 52,211 |
| Accrued interest | 48,769 | 49,071 |
| Customer deposits | 27,765 | 34,235 |
| Deferred revenue | 16,282 | 16,504 |
| Obligation for claim payment | 39,156 | 56,002 |
| Current portion of finance lease liabilities | 13,788 | 17,498 |
| Current portion of operating lease liabilities | 25,345 | — |
| Current portion of long-term debts | 36,490 | 29,237 |
| **Total current liabilities** | **465,981** | **479,325** |
| Long-term debt, net of current maturities | 1,398,385 | 1,306,423 |
| Finance lease liabilities, net of current portion | 20,272 | 26,738 |
| Pension liabilities | 25,681 | 27,641 |
| Deferred income tax liabilities | 7,996 | 11,214 |
| Long-term income tax liabilities | 2,806 | 3,024 |
| Operating lease liabilities, net of current portion | 73,282 | — |
| Other long-term liabilities | 6,962 | 14,717 |
| **Total liabilities** | **2,001,365** | **1,869,082** |
| Commitments and Contingencies (Note 14) | | |
| **Stockholders' equity (deficit)** | | |
| Common stock, par value of $0.0001 per share; 1,600,000,000 shares authorized; 153,638,836 shares issued and 150,851,689 shares outstanding at December 31, 2019 and 152,692,140 shares issued and 150,142,955 shares outstanding at December 31, 2018 (including in each case the 4,570,734 shares returned to the Company in the first quarter of 2020 in connection with the Appraisal Action) | 15 | 15 |
| Preferred stock, par value of $0.0001 per share; 20,000,000 shares authorized; 4,294,233 shares issued and outstanding at December 31, 2019 and 4,569,233 shares issued and outstanding at December 31, 2018 | 1 | 1 |
| Additional paid in capital | 445,452 | 445,452 |
| Less: Common Stock held in treasury, at cost; 2,787,147 shares at December 31, 2019 and 2,549,185 shares December 31, 2018 | (10,949) | (10,342) |
| Equity-based compensation | 49,336 | 41,731 |
| Accumulated deficit | (1,211,508) | (702,392) |
| Accumulated other comprehensive loss: | | |
| Foreign currency translation adjustment | (7,329) | (6,423) |
| Unrealized pension actuarial losses, net of tax | (8,059) | (9,301) |
| Total accumulated other comprehensive loss | (15,388) | (15,724) |
| **Total stockholders' deficit** | **(743,041)** | **(241,259)** |
| **Total liabilities and stockholders' deficit** | $ **1,258,324** | $ **1,627,823** |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Operations**
**For the years ended December 31, 2019, 2018 and 2017**
**(in thousands of United States dollars except share and per share amounts)**

| | Years ended December 31, 2019 | 2018 (As Restated) | 2017 (As Restated) |
|---|---|---|---|
| Revenue | $ 1,562,337 | $ 1,586,222 | $ 1,145,891 |
| Cost of revenue (exclusive of depreciation and amortization) | 1,224,735 | 1,213,403 | 827,544 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 198,864 | 184,908 | 220,955 |
| Depreciation and amortization | 100,903 | 138,077 | 98,890 |
| Impairment of goodwill and other intangible assets | 349,557 | 48,127 | 69,437 |
| Related party expense | 9,501 | 12,403 | 33,431 |
| **Operating loss** | **(321,223)** | **(10,696)** | **(104,366)** |
| **Other expense (income), net:** | | | |
| Interest expense, net | 163,449 | 155,991 | 129,676 |
| Debt modification and extinguishment costs | 1,404 | 1,067 | 35,512 |
| Sundry expense (income), net | 969 | (3,271) | 2,295 |
| Other expense (income), net | 14,429 | (3,030) | (1,297) |
| **Net loss before income taxes** | **(501,474)** | **(161,453)** | **(270,552)** |
| Income tax (expense) benefit | (7,642) | (8,353) | 61,068 |
| **Net loss** | **$ (509,116)** | $ **(169,806)** | **$ (209,484)** |
| Dividend equivalent on Series A Preferred Stock related to beneficial conversion feature | — | — | (16,375) |
| Cumulative dividends for Series A Preferred Stock | (3,309) | (3,655) | (2,489) |
| **Net loss attributable to common stockholders** | **$ (512,425)** | $ **(173,461)** | **$ (228,348)** |
| **Loss per share:** | | | |
| Basic and diluted | $ (3.52) | $ (1.17) | $ (2.18) |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Comprehensive Loss**
**For the years ended December 31, 2019, 2018 and 2017**
**(in thousands of United States dollars)**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 (As Restated) | 2017 (As Restated) |
| **Net loss** | **$ (509,116)** | **$ (169,806)** | **$ (209,484)** |
| **Other comprehensive income (loss), net of tax** | | | |
| Foreign currency translation adjustments | (906) | (6,204) | 3,328 |
| Unrealized pension actuarial gains (losses), net of tax | 1,242 | 1,753 | 1,285 |
| **Total other comprehensive loss, net of tax** | **$ (508,780)** | **$ (174,257)** | **$ (204,871)** |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Stockholders' Deficit**
**December 31, 2017**
**(in thousands of United States dollars except share and per share amounts)**

| | Common Stock | | Preferred Stock | | Treasury Stock | | Additional Paid in Capital | Equity-Based Compensation | Accumulated Other Comprehensive Loss: Foreign Currency Translation Adjustment | Accumulated Other Comprehensive Loss: Unrealized Pension Actuarial Losses, net of tax | Accumulated Deficit | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | | | |
| **Balances at January 1, 2017** | **64,024,557** | **$ 6** | **—** | **$ —** | **—** | **$ —** | **$ (57,395)** | **$ 27,342** | **$ (3,547)** | **$ (12,339)** | **$ (293,968)** | **$ (339,901)** |
| Net loss January 1 to December 31, 2017, as restated | — | — | — | — | — | — | — | — | — | — | (209,484) | (209,484) |
| Equity-based compensation | — | — | — | — | — | — | — | 6,743 | — | — | — | 6,743 |
| Foreign currency translation adjustment, as restated | — | — | — | — | — | — | — | — | 3,328 | — | — | 3,328 |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | 1,285 | — | 1,285 |
| Merger recapitalization | 16,575,443 | 2 | — | — | — | — | 20,546 | — | — | — | — | 20,548 |
| Shares issued to acquire Novitex | 30,600,000 | 3 | — | — | — | — | 244,797 | — | — | — | — | 244,800 |
| Issuance\Conversion of Quinpario shares | 12,093,331 | 1 | — | — | — | — | 22,358 | — | — | — | — | 22,359 |
| Sale of Common Stock at July 12, 2017 | 18,757,942 | 3 | — | — | — | — | 130,860 | — | — | — | — | 130,863 |
| Issuance of Series A Preferred Stock | — | — | 9,194,233 | 1 | — | — | 73,553 | — | — | — | — | 73,554 |
| Shares issued for advisory services and underwriting fees | 3,609,375 | — | — | — | — | — | 28,573 | — | — | — | — | 28,573 |
| Conversion of Series A Preferred Stock to Common Stock | 3,667,803 | — | (3,000,000) | — | — | — | — | — | — | — | — | — |
| Shares issued for HandsOn Global Management contract termination fee | 1,250,000 | — | — | — | — | — | 10,000 | — | — | — | — | 10,000 |
| Equity issuance expenses | — | — | — | — | — | — | (7,649) | — | — | — | — | (7,649) |
| Adjustment for beneficial conversion feature of Series A Preferred Stock (refer to Note 2) | — | — | — | — | — | — | 16,375 | — | — | — | (16,375) | — |
| Accrual for appraisal action liability, as restated | — | — | — | — | — | — | (36,566) | — | — | — | — | (36,566) |
| Treasury stock purchases | (49,300) | — | — | — | 49,300 | (249) | — | — | — | — | — | (249) |
| **Balances at December 31, 2017, as restated** | **150,529,151** | **$ 15** | **6,194,233** | **$ 1** | **49,300** | **$ (249)** | **$ 445,452** | **$ 34,085** | **$ (219)** | **$ (11,054)** | **$ (519,827)** | **$ (51,796)** |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Stockholders' Deficit**
**December 31, 2018**
**(in thousands of United States dollars except share and per share amounts)**

| | Common Stock | | Preferred Stock | | Treasury Stock | | Additional Paid in Capital | Equity-Based Compensation | Accumulated Other Comprehensive Loss: Foreign Currency Translation Adjustment | Accumulated Other Comprehensive Loss: Unrealized Pension Actuarial Losses, net of tax | Accumulated Deficit | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | | | |
| **Balances at January 1, 2018, as restated** | **150,529,151** | **$ 15** | **6,194,233** | **$ 1** | **49,300** | **$ (249)** | **$ 445,452** | **$ 34,085** | **$ (219)** | **$ (11,054)** | **$ (519,827)** | **$ (51,796)** |
| Implementation of ASU 2014-09 (Note 2), as restated | — | — | — | — | — | — | — | — | — | — | (12,759) | (12,759) |
| Net loss January 1 to December 31, 2018, as restated | — | — | — | — | — | — | — | — | — | — | (169,806) | (169,806) |
| Equity-based compensation | — | — | — | — | — | — | — | 6,562 | — | — | — | 6,562 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (6,204) | — | — | (6,204) |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | 1,753 | — | 1,753 |
| RSU's exercised | 126,922 | — | — | — | — | — | — | 256 | — | — | — | 256 |
| Stock option expense | — | — | — | — | — | — | — | 828 | — | — | — | 828 |
| Preferred shares converted to common | 1,986,767 | — | (1,625,000) | — | — | — | — | — | — | — | — | — |
| Shares repurchased | (2,499,885) | — | — | — | 2,499,885 | (10,093) | — | — | — | — | — | (10,093) |
| **Balances at December 31, 2018, as restated** | **150,142,955** | **$ 15** | **4,569,233** | **$ 1** | **2,549,185** | **$ (10,342)** | **$ 445,452** | **$ 41,731** | **$ (6,423)** | **$ (9,301)** | **$ (702,392)** | **$ (241,259)** |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Stockholders' Deficit**
**December 31, 2019**
**(in thousands of United States dollars except share and per share amounts)**

| | Common Stock | | Preferred Stock | | Treasury Stock | | Additional Paid in Capital | Equity-Based Compensation | Accumulated Other Comprehensive Loss: Foreign Currency Translation Adjustment | Accumulated Other Comprehensive Loss: Unrealized Pension Actuarial Losses, net of tax | Accumulated Deficit | Total Stockholders' Deficit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | | | |
| **Balances at January 1, 2019, as restated** | **150,142,955** | **$ 15** | **4,569,233** | **$ 1** | **2,549,185** | **$(10,342)** | **$ 445,452** | **$ 41,731** | **$ (6,423)** | **$ (9,301)** | **$ (702,392)** | **$ (241,259)** |
| Net loss January 1 to December 31, 2019 | — | — | — | — | — | — | — | — | — | — | (509,116) | (509,116) |
| Equity-based compensation | — | — | — | — | — | — | — | 7,828 | — | — | — | 7,828 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | — | (906) | — | — | (906) |
| Net realized pension actuarial gains, net of tax | — | — | — | — | — | — | — | — | — | 1,242 | — | 1,242 |
| RSUs vested | 610,482 | — | — | — | — | — | — | — | — | — | — | — |
| Witholding of employee taxes on vested RSUs | — | — | — | — | — | — | — | (223) | — | — | — | (223) |
| Shares repurchased | (237,962) | — | — | — | 237,962 | (607) | — | — | — | — | — | (607) |
| Preferred shares converted to common | 336,214 | — | (275,000) | — | — | — | — | — | — | — | — | — |
| **Balances at December 31, 2019** | **150,851,689** | **$ 15** | **4,294,233** | **$ 1** | **2,787,147** | **$(10,949)** | **$ 445,452** | **$ 49,336** | **$ (7,329)** | **$ (8,059)** | **$ (1,211,508)** | **$ (743,041)** |

The accompanying notes are an integral part of these consolidated financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Cash Flows**
**For the years ended December 31, 2019, 2018 and 2017**
**(in thousands of United States dollars unless otherwise stated)**

| | Years ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 (As Restated) | 2017 (As Restated) |
| **Cash flows from operating activities** | | | |
| Net loss | $ (509,116) | $ (169,806) | $ (209,484) |
| Adjustments to reconcile net loss | | | |
| Depreciation and amortization | 100,903 | 138,077 | 98,890 |
| Fees paid in stock | — | — | 28,573 |
| HGM contract termination fee paid in stock | — | — | 10,000 |
| Original issue discount and debt issuance cost amortization | 11,777 | 10,913 | 12,280 |
| Debt modification and extinguishment costs | 1,049 | 103 | 34,459 |
| Impairment of goodwill and other intangible assets | 349,557 | 48,127 | 69,437 |
| Provision for doubtful accounts | 4,304 | 2,767 | 500 |
| Deferred income tax provision | 1,093 | 3,220 | (67,545) |
| Share-based compensation expense | 7,827 | 7,647 | 6,743 |
| Foreign currency remeasurement | (511) | (1,180) | 1,382 |
| Loss (gain) on sale of assets | 556 | 2,687 | 556 |
| Fair value adjustment for interest rate swap | 4,337 | (2,540) | (1,297) |
| Change in operating assets and liabilities, net of effect from acquisitions | | | |
| Accounts receivable | 4,410 | (19,319) | (4,832) |
| Prepaid expenses and other assets | (4,825) | (2,820) | 1,029 |
| Accounts payable and accrued liabilities | (19,588) | 8,815 | 77,171 |
| Related party payables | (14,339) | 918 | 4,907 |
| Additions to outsource contract costs | (1,285) | (4,009) | (10,992) |
| **Net cash provided by (used in) operating activities** | **(63,851)** | **23,600** | **51,777** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | (14,360) | (20,072) | (14,440) |
| Additions to internally developed software | (6,182) | (7,438) | (7,843) |
| Cash acquired in Quinpario reverse merger | — | — | 91 |
| Cash paid in acquisition, net of cash received | (5,000) | (34,810) | (423,797) |
| Proceeds from sale of assets | 360 | 3,568 | 4,607 |
| **Net cash provided by (used in) investing activities** | **(25,182)** | **(58,752)** | **(441,382)** |
| **Cash flows from financing activities** | | | |
| Change in bank overdraft | — | — | (210) |
| Proceeds from issuance of stock | — | — | 204,417 |
| Cash received from Quinpario | — | — | 22,333 |
| Repurchases of Common Stock | (3,480) | (7,221) | (249) |
| Contribution from Shareholders | — | — | 20,548 |
| Cash paid for equity issuance costs | — | (7,500) | (149) |
| Net borrowings under factoring arrangement | 3,307 | — | — |
| Cash paid for withholding taxes on vested RSUs | (223) | — | — |
| Lease terminations | (318) | (592) | (157) |
| Retirement of previous credit facilities | — | — | (1,055,736) |
| Cash paid for debt issuance costs | (7) | (130) | (38,784) |
| Principal payments on finance lease obligations | (20,465) | (16,068) | (11,361) |
| Borrowings from senior secured revolving facility | 206,500 | 30,000 | 72,600 |
| Repayments on senior secured revolving facility | (141,500) | (30,000) | (72,500) |
| Proceeds from issuance of notes | — | — | 977,500 |
| Proceeds from senior secured term loans | 29,850 | 30,000 | 343,000 |
| Borrowings from other loans | 39,153 | 11,557 | 3,116 |
| Principal repayments on senior secured term loans and other loans | (53,678) | (12,651) | (27,955) |
| **Net cash provided by (used in) financing activities** | **59,139** | **(2,605)** | **436,413** |
| Effect of exchange rates on cash | 139 | 122 | 429 |
| **Net decrease in cash and cash equivalents** | **(29,755)** | **(37,635)** | **47,237** |
| Cash, restricted cash, and cash equivalents | | | |
| Beginning of period | 43,854 | 81,489 | 34,252 |
| End of period | $ 14,099 | $ 43,854 | $ 81,489 |
| **Supplemental cash flow data:** | | | |
| Income tax payments, net of refunds received | $ 7,882 | $ 7,827 | $ 5,711 |
| Interest paid | 144,456 | 146,076 | 69,622 |
| **Noncash investing and financing activities:** | | | |
| Assets acquired through right-of-use arrangements | 10,732 | 14,920 | 6,973 |
| Leasehold improvements funded by lessor | — | 1,565 | 146 |
| Issuance of Common Stock as consideration for Novitex | — | — | 244,800 |
| Accrued capital expenditures | 1,402 | 2,820 | 1,621 |
| Dividend equivalent on Series A Preferred Stock | — | — | 16,375 |
| Liability assumed of Quinpario | — | — | 4,698 |

The accompanying notes are an integral part of these consolidated financial statements.

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**1. Description of the Business**

**Organization**

Exela Technologies, Inc. (the “Company” or “Exela”) is a global provider of transaction processing solutions, enterprise information management, document management and digital business process services. The Company provides mission-critical information and transaction processing solutions services to clients across three major industry verticals: (1) Information & Transaction Processing, (2) Healthcare Solutions, and (3) Legal and Loss Prevention Services. The Company manages information and document driven business processes and offers solutions and services to fulfill specialized knowledge-based processing and consulting requirements, enabling clients to concentrate on their core competencies. Through its outsourcing solutions, the Company enables businesses to streamline their internal and external communications and workflows.

The Company was originally incorporated in Delaware on July 15, 2014 as a special purpose acquisition company under the name Quinpario Acquisition Corp 2 (“Quinpario”) for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination involving Quinpario and one or more businesses or entities. On July 12, 2017 (the “Closing”), the Company consummated its business combination with SourceHOV Holdings, Inc. (“SourceHOV”) and Novitex Holdings, Inc. (“Novitex”) pursuant to the Business Combination Agreement, dated February 21, 2017, among the Company, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., SourceHOV, Novitex, HOVS LLC, HandsOn Fund 4 I, LLC and Novitex Parent, L.P., as amended (the “Novitex Business Combination”). In connection with the Closing, the Company changed its name from Quinpario Acquisition Corp 2 to Exela Technologies, Inc. Unless the context otherwise requires, the “Company” refers to the combined company and its subsidiaries following the Novitex Business Combination, “Quinpario” refers to the Company prior to the closing of the Novitex Business Combination, “SourceHOV” refers to SourceHOV prior to the Novitex Business Combination and “Novitex” refers to Novitex prior to the Novitex Business Combination.

**2. Basis of Presentation and Summary of Significant Accounting Policies**

The following is a summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements.

**Basis of Presentation**

The accompanying consolidated financial statements and related notes to the consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”) and in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”).

The Novitex Business Combination has been accounted for as a reverse merger in accordance with U.S. GAAP. For accounting purposes, SourceHOV was deemed to be the accounting acquirer, Quinpario was the legal acquirer, and Novitex is considered the acquired company. In conjunction with the Novitex Business Combination, outstanding shares of SourceHOV were converted into the right to receive Common Stock of the Company, par value $0.0001 per share, shown as a recapitalization, and the net assets of Quinpario were acquired at historical cost, with no goodwill or other intangible assets recorded. Quinpario’s assets and liabilities, which include net cash from the trust of $27.0 million and accrued fees payable of $4.8 million, and results of operations are consolidated with SourceHOV beginning on the Closing. The shares and corresponding capital amounts and earnings per share available to holders of the Company’s Common Stock, prior to the Novitex Business Combination, have been retroactively restated as shares reflecting the exchange ratio established in the Novitex Business Combination. The presented financial information for the year ended December 31, 2017 includes the financial information and activities for SourceHOV for the period January 1, 2017 to December 31, 2017 (365 days) as well as the financial information and activities of Novitex for the period July 13, 2017 to December 31, 2017 (172 days).

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**Principles of Consolidation**

The accompanying consolidated financial statements and related notes to the consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. In addition, the Company evaluates its relationships with other entities to identify whether they are variable interest entities as defined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810-10, Consolidation and whether the Company is the primary beneficiary. Consolidation is required if both of these criteria are met.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

*Company's variable interest in Ex-Sigma:* The HGM Group and other former SourceHOV equity holders formed Ex-Sigma LLC (the "Ex-Sigma") and its wholly-owned subsidiary, Ex-Sigma 2 LLC (the "Ex-Sigma 2"), to hold the Exela shares to be issued to SourceHOV as merger consideration upon the closing of the Novitex Business Combination and to invest in Exela immediately prior to the closing. Ex-Sigma 2 secured additional PIPE financing in the form of a $55.8 million loan (the "Margin Loan") that was used to purchase additional common and preferred shares from the Company to help meet the minimum cash requirements needed to close the Novitex Business Combination. As a result of these transactions, the Company issued 84,912,500 shares of Common Stock to Ex-Sigma 2 at the closing, which represented approximately 54.9% ownership in the Company at that time and were pledged as collateral for the Margin Loan.

The Company determined that Ex-Sigma was a variable interest entity and that the Company had a variable interest in Ex-Sigma through an expense reimbursement arrangement related to the Margin Loan and contained in the Consent, Waiver and Amendment dated June 15, 2017 by and among the Company, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., Novitex, Novitex Parent, L.P., Ex-Sigma, HOVS LLC and HandsOnFund 4 I, LLC, amending the Novitex Business Combination Agreement (the "Consent, Waiver and Amendment"). The Consent, Waiver and Amendment provided among other things for the Company to reimburse Ex-Sigma for costs and fees related to the maintenance of the Margin Loan, other than payments of principal, interest and original issue discount.

The Company was not the primary beneficiary because the Company did not have the power to direct the activities that most significantly impacted the economic performance of Ex-Sigma. Accordingly, the Company did not consolidate the financial statements of Ex-Sigma and did not have any assets or liabilities related to Ex-Sigma and the Company did not have an investment in Ex-Sigma. The Company reaffirmed its assessment as of June 8, 2020.

Ex-Sigma 2 paid off the balance of the Margin Loan as of December 31, 2019, and as such the maximum exposure to loss as a result of the Company's involvement with Ex-Sigma is $0. Ex-Sigma 2 distributed the shares held by it during the first quarter of 2020 and is no longer a shareholder of Exela. Ex-Sigma and Ex-Sigma 2 ceased to be variable interest entities upon the distribution that occurred on February 21, 2020.

**Use of Estimates in Preparation of the Financial Statements**

Estimates and judgments relied upon in preparing these consolidated financial statements include revenue recognition for multiple element arrangements, allowance for doubtful accounts, income taxes, depreciation, amortization, employee benefits, equity-based compensation, contingencies, goodwill, intangible assets, right of use assets and obligation, pension obligations, pension assets, fair value of assets and liabilities acquired in acquisitions, and asset and liability valuations. The Company regularly assesses these estimates and records changes in estimates in the period in which they become known. The Company bases its estimates on historical experience and various other assumptions that the Company believes to be reasonable under the circumstances. Actual results could differ from those estimates.

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**Going Concern**

Under ASC Subtopic 205-40, Presentation of Financial Statements—Going Concern ("ASC 205-40"), the Company has the responsibility to evaluate whether conditions and/or events raise substantial doubt about its ability to meet its future financial obligations as they become due within one year after the date that the financial statements are issued. As required under ASC 205-40, management's evaluation should initially not take into consideration the potential mitigating effects of management's plans that have not been fully implemented as of the date the financial statements are issued. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern.

*Substantial Doubt Raised*
In performing the first step of the evaluation, we concluded that the following conditions raised substantial doubt about our ability to continue as a going concern:

- history of net losses of $509.1 million and $169.8 million for the years ended December 31, 2019 and December 31, 2018, respectively, including goodwill and other intangible asset impairment of $349.6 million, for the year ended December 31, 2019 and $48.1 million for the year ended December 31, 2018;
- net operating cash outflow of $63.9 million in 2019 and inflow of $23.6 million in 2018;
- working capital deficits of $147.1 million as of December 31, 2019 and $123.5 million as of December 31, 2018;
- significant cash payments for interest on our long-term debt of $144.5 million in 2019 and a similar amount expected in 2020;
- a liability incurred of $56.4 million for Appraisal Action (as described further in Note 14);
- a requirement that the Company maintain a minimum of $40.0 million and $35.0 million in liquidity, at all times, to not be considered in default of the A/R Facility and the Credit Agreement (as defined below); and
- an accumulated deficit of $1,211.5 million.

Furthermore, under the terms of each of the First Lien Credit Agreement, dated as of July 12, 2017, as amended and restated as of July 13, 2018 and as further amended and restated as of April 16, 2019 (the "Credit Agreement"), and the Indenture and First Supplemental Indenture (collectively, the "Indenture"), dated July 12, 2017, the Company was required to deliver to lender the December 31, 2019 audited financial statements by April 14, 2020, which the Company failed to do. Such failure was an event of default under the Credit Agreement if not cured within 30 days of receiving a notice of default. The Company received such notice on April 15, 2020. Additionally, under the terms of the A/R Facility (as described in Note 21), the Company was required to furnish to each lender the December 31, 2019 audited financial statements by May 11, 2020, which the Company failed to do. In May 2020, both the Credit Agreement and the A/R Facility were amended. Refer to Consideration of Management's Plans section below.

*Consideration of Management's Plans*
In performing the second step of this assessment, we are required to evaluate whether it is probable that our plans will be effectively implemented within one year after the financial statements are issued and whether it is probable those plans will alleviate the substantial doubt about our ability to continue as a going concern.
As of June 5, 2020, the Company had $94.1 million in available cash and an additional source of liquidity of $13.4 million from the borrowing facilities.
The Company has undertaken the following plans to improve our available cash balances, liquidity and cash flows generated from operations, over the twelve-month period from the date the financial statements are issued, as follows:

- On January 10, 2020, certain subsidiaries of the Company entered into a $160.0 million A/R Facility with a five-year term. The Company used the proceeds of the initial borrowings to repay outstanding revolving

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borrowings under the Company's senior credit facility and to provide additional liquidity and funding for the ongoing business needs of the Company and its subsidiaries. As of June 8, 2020, the Company has fully drawn on the remaining availability under the A/R Facility. Additionally, the A/R Facility agreement includes a requirement that the Company maintain a minimum of $40.0 million in liquidity, at all times, to not be considered in default.

- On March 16, 2020, the Company and its indirect wholly owned subsidiaries, Merco Holdings, LLC and SourceHOV Tax, LLC entered into a Membership Interest Purchase Agreement with Gainline Source Intermediate Holdings LLC at which time Gainline Source Intermediate Holdings LLC acquired all of the outstanding membership interests of SourceHov Tax for $40.0 million, subject to adjustment as set forth in the purchase agreement of approximately $2.0 million.
- On March 23, 2020, in response to the potential impact of the COVID-19 pandemic, the Company implemented a temporary freeze on increases to base salaries and wages unless where contractually mandated. Additionally, in connection with the incentive program administered by the Company for hourly, non-exempt employees, a new maximum was put in place to limit the amount of incentives that could be earned in any given two (2) week pay period. Although the Company expects these to be short-term actions, it expects these actions will result in a cash savings to the Company of approximately $23.4 million on an annual basis.
- On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. The refundable payroll tax credits and deferment of employer side social security payments provisions of the CARES Act will benefit Company's liquidity by approximately $29.0 million.
- On May 18, 2020, the Company amended the Credit Agreement to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020. Further, pursuant to the amendment, the borrower under the Credit Agreement is also required to maintain a minimum liquidity of $35.0 million. Refer to Note 11 - *Long-Term Debt and Credit Facilities for additional discussion*.
- On May 21, 2020, the Company also amended the A/R Facility to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020. Refer to Note 21 – *Subsequent Events for additional discussion.*

*Management Assessment of Ability to Continue as a Going Concern*

The Company has a history of negative trends in its financial condition and operating results as well as recent noncompliance with covenants with its respective lenders. However, despite these conditions, the Company believes management's plans, as described fully above, will provide sufficient liquidity to meet its financial obligations and further, maintain levels of liquidity as specifically required under the Credit Agreement and the A/R Facility. Therefore, management concluded these plans alleviate the substantial doubt that was raised about our ability to continue as a going concern for at least twelve months from the date that the financial statements were issued.

*Future Plans and Considerations*

Our plans to further enhance liquidity, which were not considered for the purposes of our assessment of whether substantial doubt is alleviated, include the potential sale of certain non-core assets that are not central to the Company's long-term strategic vision, and any potential action with respect to these operations would be intended to allow the Company to better focus on its core businesses. The Company has retained financial advisors to assist with the sale of select assets. The Company expects to use the potential net proceeds from this initiative for the paydown of debt.

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Our plans are subject to inherent risks and uncertainties, which become significantly magnified when the effects of the current pandemic and related financial crisis are included in the assessment. Accordingly, there can be no assurance that our plans can be effectively implemented and, therefore, that the conditions can be effectively mitigated.

**Segment Reporting**

The Company consists of the following three segments:

*1. Information & Transaction Processing Solutions ("ITPS").* ITPS provides industry-specific solutions for banking and financial services, including lending solutions for mortgages and auto loans, and banking solutions for clearing, anti-money laundering, sanctions, and interbank cross-border settlement; property and casualty insurance solutions for origination, enrollments, claims processing, and benefits administration communications; public sector solutions for income tax processing, benefits administration, and record management; multi-industry solutions for payment processing and reconciliation, integrated receivables and payables management, document logistics and location services, records management and electronic storage of data, documents; and software, hardware, professional services and maintenance related to information and transaction processing automation, among others.

*2. Healthcare Solutions ("HS").* HS offerings include revenue cycle solutions, integrated accounts payable and accounts receivable, and information management for both the healthcare payer and provider markets. Payer service offerings include claims processing, claims adjudication and auditing services, enrollment processing and policy management, and scheduling and prescription management. Provider service offerings include medical coding and insurance claim generation, underpayment audit and recovery, and medical records management.

*3. Legal and Loss Prevention Services ("LLPS").* LLPS solutions include processing of legal claims for class action and mass action settlement administrations, involving project management support, notification and outreach to claimants, collection, analysis and distribution of settlement funds. Additionally, LLPS provides data and analytical services in the context of litigation consulting, economic and statistical analysis, expert witness services, and revenue recovery services for delinquent accounts receivable.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash deposited with financial institutions and liquid investments with original maturity dates equal to or less than three months. All bank deposits and money market accounts are considered cash and cash equivalents. The Company holds cash and cash equivalents at major financial institutions, which often exceed Federal Deposit Insurance Corporation insured limits. Historically, the Company has not experienced any losses due to bank depository concentration.

Certificates of deposit and fixed deposits whose original maturity is greater than three months and one year or less are classified as short-term investments, and certificates of deposit and fixed deposits whose maturity is greater than one year at the balance sheet date are classified as non-current assets in the consolidated balance sheets. The purchase of any certificates of deposit or fixed deposits that are classified as short-term investments or non-current assets appear in the investing section of the consolidated statements of cash flows.

**Restricted Cash**

As part of the Company's legal claims processing service, the Company holds cash for various settlement funds once the fund is in the wind down stage and claims have been paid. The cash is used to pay tax obligations and other liabilities of the settlement funds. The Company has recorded a liability for the settlement funds received, which is included in Obligation for claim payment in the consolidated balance sheets, of $39.1 million and $56.0 million at December 31, 2019 and 2018, respectively.

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**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are carried at the original invoice amount less an estimate made for doubtful accounts. Revenue that has been earned but remains unbilled at the end of the period is recorded as a component of accounts receivable, net. The Company specifically analyzes accounts receivable and historical bad debts, customer credit-worthiness, current economic trends, and changes in customer payment terms and collection trends when evaluating the adequacy of its allowance for doubtful accounts. The Company writes off accounts receivable balances against the allowance for doubtful accounts, net of any amounts recorded in deferred revenue, when it becomes probable that the receivable will not be collected.

**Inventories**

Inventories are valued at the lower of cost and net realizable value method and include the cost of raw materials, labor, and purchased subassemblies. Cost is determined using the weighted average method. Net inventories as of December 31, 2019 and 2018 were $19.0 million and $16.2 million, respectively.

**Property, Plant and Equipment**

Property, plant, and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method (which approximates the use of the assets) over the estimated useful lives of the assets. When these assets are sold or otherwise disposed of, the asset and related depreciation is relieved, and any gain or loss is included in the consolidated statements of operations for the period of sale or disposal. Leasehold improvements are amortized over the lease term or the useful life of the asset, whichever is shorter. Repair and maintenance costs are expensed as incurred.

**Intangible Assets**

*Customer Relationships*

Customer relationship intangible assets represent customer contracts and relationships obtained as part of acquired businesses. Customer relationship values are estimated by evaluating various factors including historical attrition rates, contractual provisions and customer growth rates, among others. The estimated average useful lives of customer relationships range from 4 to 16 years depending on facts and circumstances. These intangible assets are primarily amortized based on undiscounted cash flows. The Company evaluates the remaining useful life of intangible assets on an annual basis to determine whether events and circumstances warrant a revision to the remaining useful life.

*Trade Names*

The Company has determined that its trade name intangible assets are indefinite-lived assets and therefore are not subject to amortization. Trade names are tested for impairment as per the Company’s policy for impairment of indefinite-lived assets.

*Trademarks*

The Company has determined that its trademark intangible assets resulting from acquisitions are definite-lived assets and therefore are subject to amortization. The Company amortizes such trademarks on a straight-line basis over the estimated useful life, which is typically one year.

*Developed Technology*

The Company has acquired various developed technologies embedded in its technology platform. Developed technology is an integral asset to the Company in providing solutions to customers and is recorded as an intangible asset. The Company amortizes developed technology on a straight-line basis over the estimated useful life, which is typically 5 to 8.5 years.

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*Capitalized Software Costs*

The Company capitalizes certain costs incurred to develop software products to be sold, leased or otherwise marketed after establishing technological feasibility in accordance with ASC section 985-20, *Software—Costs of Software to Be Sold, Leased, or Marketed*, and the Company capitalizes costs to develop or purchase internal-use software in accordance with ASC section 350-40, *Intangibles—Goodwill and Other— Internal-Use Software*. Significant estimates and assumptions include determining the appropriate period over which to amortize the capitalized costs based on estimated useful lives and estimating the marketability of the commercial software products and related future revenues. The Company amortizes capitalized software costs on a straight-line basis over the estimated useful life, which is typically 3 to 5 years.

*Outsourced Contract Costs*

Costs of outsourcing contracts, including costs incurred for bid and proposal activities, are generally expensed as incurred. However, certain costs incurred upon initiation of an outsourcing contract are deferred and expensed on a straight-line basis over the estimated contract term. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or fulfillment activities and can be separated into two principal categories: contract commissions and set-up/fulfillment costs. Contract fulfillment costs are capitalized only if they are directly attributable to a specifically anticipated future contract; represent the enhancement of resources that will be used in satisfying a future performance obligation (the services under the anticipated contract); and are expected to be recovered.

*Non-compete Agreements*

The Company acquired certain non-compete agreements in connection with the Novitex Business Combination. These were related to four Novitex executives that were terminated following the acquisition. As of December 31, 2019 these agreements were fully amortized.

*Assembled Workforce*

The Company acquired an assembled workforce in an asset purchase transaction in the fourth quarter of 2018. The Company recognized an intangible asset for the acquired assembled workforce and amortizes the asset on a straight-line basis over the estimated useful life of four years.

**Impairment of Indefinite-Lived Assets**

The Company conducts its annual indefinite-lived assets impairment tests on October 1st of each year for its indefinite-lived assets, or more frequently if indicators of impairment exist. When performing the impairment test, the Company has the option of performing a qualitative or quantitative assessment to determine if an impairment has occurred. A quantitative assessment requires comparison of fair value of the asset to its carrying value. If carrying value of the indefinite-lived assets exceeds fair value, the Company recognizes an impairment loss by an amount which is equal to the excess of carrying value over fair value. The Company utilizes the Income Approach, specifically the Relief-from-Royalty method, which has the basic tenet that a user of that intangible asset would have to make a stream of payments to the owner of the asset in return for the rights to use that asset. *Refer to Note 9-Intangible Assets and Goodwill* for additional discussion of impairment of trade names.

**Impairment of Long-Lived Assets**

The Company reviews the recoverability of its long-lived assets, including finite-lived trade names, trademarks, customer relationships, developed technology, capitalized software costs, outsourced contract costs, acquired software, workforce, and property, plant and equipment, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the ability to recover the carrying value of the asset from the expected future cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is

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recognized for the difference between estimated fair value and carrying value. The primary measure of fair value is based on discounted cash flows based in part on the financial results and the expectation of future performance.

The Company did not record any material impairment related to its property, plant, and equipment, customer relationships, trademarks, developed technology, capitalized software, or outsourced contract costs for the years ended December 31, 2019, 2018, and 2017.

**Goodwill**

Goodwill represents the excess purchase price over tangible and intangible assets acquired less liabilities assumed arising from business combinations. Goodwill is generally allocated to reporting units based upon relative fair value (taking into consideration other factors such as synergies) when an acquired business is integrated into multiple reporting units. The Company's reporting units are at the operating segment level, which discrete financial information is prepared and regularly reviewed by management. When a business within a reporting unit is disposed of, goodwill is allocated to the disposed business using the relative fair value method.

The Company conducts its annual goodwill impairment tests on October 1st of each year, or more frequently if indicators of impairment exist. When performing the annual impairment test, the Company has the option of performing a qualitative or quantitative assessment to determine if an impairment has occurred. If a qualitative assessment indicates that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company would be required to perform a quantitative impairment analysis for goodwill. The quantitative analysis requires a comparison of fair value of the reporting unit to its carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The Company uses a combination of the Guideline Public Company Method of the Market Approach and the Discounted Cash Flow Method of the Income Approach to determine the reporting unit fair value. *Refer to Note 9- Intangible Assets and Goodwill* for additional discussion

of impairment of goodwill.

**Derivative Instruments and Hedging Activities**

As required by ASC 815—*Derivatives and Hedging*, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

The Company's objective in using interest rate derivatives is to manage its exposure to variable interest rates related to its term loan under the Credit Agreement. In order to accomplish this objective, in November 2017, the Company entered into a three year, one-month LIBOR interest rate contract with a notional amount of $347.8 million. The contract will mitigate the variable interest rate risk related to the LIBOR with a fixed interest rate paid semi-annually starting January 12, 2018.

The following table summarizes the Company’s interest rate swap positions as of December 31, 2019:

| | | December 31, 2019 | |
|---|---|---|---|
| Effective date | Maturity date | (In Millions) Notional Amount | Weighted Average Interest Rate |
| 1/12/2018 | 1/12/2021 | $ 328.1 | 1.9275 % |

The interest rate swap, which is used to manage the Company's exposure to interest rate movements and other identified risks, was not designated as a hedge. As such, the change in the fair value of the derivative is recorded directly

in other income (expense), net. Other income (expense), net includes a loss of $4.3 million and a gain of $2.5 million related to the change in fair value of the interest rate swap for the years ended December 31, 2019 and 2018, respectively.

### Benefit Plan Accruals

The Company has defined benefit plans in the U.K and Germany, under which participants earn a retirement benefit based upon a formula set forth in the respective plans. The Company records annual amounts relating to its pension plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, and compensation increases. The Company reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so.

**Leases**

The Company determines if a contract is, or contains, a lease at contract inception. Operating leases are included in operating lease right-of-use ("ROU") assets, current portion of operating lease liabilities and operating lease liabilities, net of current portion in the Company's consolidated balance sheet. Finance leases are included in property, plant and equipment, current portion of finance lease liabilities and finance lease liabilities, net of current portion in the Company's consolidated balance sheet.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. In addition, ROU assets include initial direct costs incurred by the lessee as well as any lease payments made at or before the commencement date, and exclude lease incentives. As most of the Company's leases do not provide an implicit rate, the

Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. Lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Leases with a term of one year or less are not recorded on the balance sheet.

Finance lease ROU assets are amortized over the lease term or the useful life of the asset, whichever is shorter. The amortization of finance lease ROU assets is recorded in depreciation expense in the consolidated statements of operations. For operating leases, we recognize expense for lease payments on a straight-line basis over the lease term.

**Stock-Based Compensation**

The Company accounts for all equity-classified awards under stock-based compensation plans at their “fair value.” This fair value is measured at the fair value of the awards at the grant date and recognized as compensation expense on a straight-line basis over the vesting period. The fair value of the awards on the grant date is determined using the stock price on the respective grand date in the case of restricted stock units and using an option pricing model in the case of stock options. The expense resulting from share-based payments is recorded in Selling, general and administrative expense in the accompanying consolidated statements of operations.

**Revenue Recognition**

We account for revenue in accordance with ASC 606, *Revenue from Contracts with Customers*. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in ASC 606. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. All of our material sources of revenue are derived from contracts with customers, primarily relating to the provision of business and transaction processing services within each of our segments. We do not have any significant extended payment terms, as payment is received shortly after goods are delivered or services are provided.

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***Nature of Services***

Our primary performance obligations are to stand ready to provide various forms of business processing services, consisting of a series of distinct services that are substantially the same and have the same pattern of transfer over time, and accordingly are combined into a single performance obligation. Our promise to our customers is typically to perform an unknown or unspecified quantity of tasks and the consideration received is contingent upon the customers' use (i.e., number of transactions processed, requests fulfilled, etc.); as such, the total transaction price is variable. We allocate the variable fees to the single performance obligation charged to the distinct service period in which we have the contractual right to bill under the contract.

***Disaggregation of Revenues***

The following tables disaggregate revenue from contracts by geographic region and by segment for the years ended December 31, 2019, 2018, and 2017:

| | Years Ended December 31, | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | | | 2018 (As Restated) | | | | 2017 (As Restated) | | | |
| | ITPS | HS | LLPS | Total | ITPS | HS | LLPS | Total | ITPS | HS | LLPS | Total |
| U.S.A. | $ 958,625 | $256,721 | $71,332 | $1,286,678 | $1,034,941 | $228,015 | $84,560 | $1,347,516 | $675,613 | $233,595 | $91,619 | $1,000,827 |
| EMEA | 248,466 | — | — | 248,466 | 211,314 | — | — | 211,314 | 130,098 | — | — | 130,098 |
| Other | 27,193 | — | — | 27,193 | 27,392 | — | — | 27,392 | 14,966 | — | — | 14,966 |
| Total | $1,234,284 | $256,721 | $71,332 | $1,562,337 | $1,273,647 | $228,015 | $84,560 | $1,586,222 | $820,677 | $233,595 | $91,619 | $1,145,891 |

***Contract Balances***

The following table presents contract assets, contract liabilities and contract costs recognized at December 31, 2019 and 2018:

| | December 31, 2019 | December 31, 2018 (As Restated) |
|---|---|---|
| Accounts receivable, net | $ 261,400 | $ 270,812 |
| Deferred revenues | 16,621 | 16,940 |
| Customer deposits | 27,765 | 34,235 |
| Costs to obtain and fulfill a contract | 4,977 | 6,623 |

Accounts receivable, net includes $34.1 million and $39.5 million as of December 31, 2019 and 2018, respectively, representing amounts not billed to customers. We have accrued the unbilled receivables for work performed in accordance with the terms of contracts with customers.

Deferred revenues relate to payments received in advance of performance under a contract. A significant portion of this balance relates to maintenance contracts or other service contracts where we received payments for upfront conversions or implementation activities which do not transfer a service to the customer but rather are used in fulfilling the related performance obligations that transfer over time. The advance consideration received from customers is deferred over the contract term. We recognized revenue of $14.4 million during the year ended December 31, 2019 that had been deferred as of December 31, 2018.

Costs incurred to obtain and fulfill contracts are deferred and presented as part of intangible assets, net and expensed on a straight-line basis over the estimated benefit period. We recognized $2.9 million and $3.1 million of amortization for these costs in 2019 and 2018, respectively, within depreciation and amortization expense. These costs represent incremental external costs or certain specific internal costs that are directly related to the contract acquisition or fulfillment and can be separated into two principal categories: contract commissions and fulfillment costs. Applying the practical expedient in ASC 340-40-25-4, we recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period would have been one year or less. These costs are included in Selling, general and administrative expenses. The effect of applying this practical expedient was not material.

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Customer deposits consist primarily of amounts received from customers in advance for postage. The majority of the amounts recorded as of December 31, 2018, and received throughout 2019, were used to pay for postage with the corresponding postage revenue being recognized during the year ended December 31, 2019.

***Performance Obligations***

At the inception of each contract, we assess the goods and services promised in our contracts and identify each distinct performance obligation. The majority of our contracts have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts. For the majority of our business and transaction processing service contracts, revenues are recognized as services are provided based on an appropriate input or output method, typically based on the related labor or transactional volumes.

Certain of our contracts have multiple performance obligations, including contracts that combine software implementation services with post-implementation customer support. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we estimate our expected costs of satisfying a performance obligation and add an appropriate margin for that distinct good or service. We also use the adjusted market approach whereby we estimate the price that customers in the market would be willing to pay. In assessing whether to allocate variable consideration to a specific part of the contract, we consider the nature of the variable payment and whether it relates specifically to its efforts to satisfy a specific part of the contract. Certain of our software implementation performance obligations are satisfied at a point in time, typically when customer acceptance is obtained.

When evaluating the transaction price, we analyze, on a contract-by-contract basis, all applicable variable consideration. The nature of our contracts give rise to variable consideration, including volume discounts, contract penalties, and other similar items that generally decrease the transaction price. We estimate these amounts based on the expected amount to be provided to customers and reduce revenues recognized. We do not anticipate significant changes to our estimates of variable consideration.

We include reimbursements from customers, such as postage costs, in revenue, while the related costs are included in cost of revenue.

***Transaction Price Allocated to the Remaining Performance Obligations***

In accordance with optional exemptions available under ASC 606, we did not disclose the value of unsatisfied performance obligations for (a) contracts with an original expected length of one year or less, and (b) contracts for which variable consideration relates entirely to an unsatisfied performance obligation, which comprise the majority of our contracts. We have certain non-cancellable contracts where we receive a fixed monthly fee in exchange for a series of distinct services that are substantially the same and have the same pattern of transfer over time, with the corresponding remaining performance obligations as of December 31, 2019 in each of the future periods below:

| | Estimated Remaining Fixed Consideration for Unsatisfied Performance Obligations |
|---|---|
| 2020 | $ 50,664 |
| 2021 | 38,586 |
| 2022 | 32,814 |
| 2023 | 27,408 |
| 2024 | 26,452 |
| 2025 and thereafter | 27,141 |
| Total | $ 203,065 |

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**Research and Development**

Research and development costs are expensed as incurred. Research and development costs expensed for the years ended December 31, 2019, 2018, and 2017 were $1.7 million, $2.0 million, and $2.3 million, respectively.

**Advertising**

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2019, 2018, and 2017, were $1.1 million, $0.9 million, and $0.7 million, respectively.

**Income Taxes**

The Company accounts for income taxes by using the asset and liability method. The Company accounts for income taxes regarding uncertain tax positions and recognized interest and penalties related to uncertain tax positions in income tax benefit/(expense) in the consolidated statements of operations.

Deferred income taxes are recognized on the tax consequences of temporary differences by applying enacted statutory tax rates applicable in future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities, as determined under tax laws and rates. A valuation allowance is provided when it is more likely than not that all or some portion of the deferred tax assets will not be realized. Due to numerous ownership changes, the Company is subject to limitations on existing net operating losses under Section 382 of the Internal Revenue Code (the "Code"). Accordingly, valuation allowances have been established against a portion of the net operating losses to reflect estimated Section 382 limitations. The Company also considered the realizability of net operating losses not limited by Section 382. The Company did not consider future book income as a source of taxable income when assessing if a portion of the deferred tax assets are more likely than not to be realized. However, scheduling the reversal of existing deferred tax liabilities indicated that a portion of the deferred tax assets are likely to be realized. Therefore, partial valuation allowances were established against a portion of the Company's deferred tax assets. In the event the Company determines that it would be able to realize deferred tax assets that have valuation allowances established, an adjustment to the net deferred tax assets would be recognized as a component of income tax expense through continuing operations.

The Company engages in transactions (i.e. acquisitions) in which the tax consequences may be subject to uncertainty and examination by the varying taxing authorities. Therefore, judgment is required by the Company in assessing and estimating the tax consequences of these transactions. While the Company's tax returns are prepared and based on the Company's interpretation of tax laws and regulations, in the normal course of business the tax returns are subject to examination by the various taxing authorities. Such examinations may result in future assessments of additional tax, interest and penalties. For purposes of the Company's income tax provision, a tax benefit is not recognized if the tax position is not more likely than not to be sustained based solely on its technical merits. Considerable judgment is involved in determining which tax positions are more likely than not to be sustained. *Refer to Note 12 - Income Taxes* for further information.

**Loss Contingencies**

The Company reviews the status of each significant matter, if any, and assesses its potential financial exposure considering all available information including, but not limited to, the impact of negotiations, settlements, rulings, advice of legal counsel and other updated information and events pertaining to a particular matter. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss. Judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to loss contingencies, accruals are based on the best information available at the time. As additional information becomes available, the Company reassesses the potential liability related to its pending claims and litigation, and may revise its estimates. These revisions in the estimates of the potential liabilities could have a material impact on the results of operations and financial position of the

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Company. The Company's liabilities exclude any estimates for legal costs not yet incurred associated with handling these matters.

**Operations**

A portion of the Company's labor and operations is situated outside of the United States in India and other locations. The carrying value of long-lived assets that are situated outside of the United States is approximately $33.7 million and $34.4 million as of December 31, 2019 and 2018, respectively

**Foreign Currency Translation**

The functional currency for the Company's production operations located in India, Philippines, China, and Mexico is the United States dollar. Included in other expense as Sundry expense (income), net in the consolidated statements of operations are net exchange gains of $0.5 million and $1.2 million for the years ended December 31, 2019 and 2018, respectively, and a loss of $1.4 million for the year ended December 31, 2017.

The Company has determined all other international subsidiaries' functional currency is the local currency. These assets and liabilities are translated at exchange rates in effect at the balance sheet date while income and expense amounts are translated at average exchange rates during the period. The resulting foreign currency translation adjustments are disclosed as a separate component of other comprehensive loss.

**Beneficial Conversion Feature**

The Company's Series A Perpetual Convertible Preferred Stock, par value $0.0001 per share (the "Series A Preferred Stock") contains a beneficial conversion feature, which arises when a debt or equity security is issued with an embedded conversion option that is beneficial to the investor or in the money at inception because the conversion option has an effective strike price that is less than the market price of the underlying stock at the commitment date. The Company recognized the beneficial conversion feature by allocating the intrinsic value of the conversion option, which is the number of shares of Common Stock available upon conversion multiplied by the difference between the effective conversion price per share and the fair value of Common Stock per share on the commitment date, to additional paid-in capital, resulting in a discount on the Series A Preferred Stock. As a result of the occurrence of events meeting the definition of a "Fundamental Change" as defined in the Certificate of Designations, Preferences, Rights and Limitations of Series A Perpetual Convertible Preferred Stock of the Company during the period, the Company recognized the entire dividend equivalent of $16.4 million as of December 31, 2017. There was no dividend equivalent recognized in 2018 and 2019.

**Net Loss per Share**

Earnings per share ("EPS") is computed by dividing net loss available to holders of the Company's Common Stock by the weighted average number of shares of Common Stock outstanding during the period, excluding the effects of any potentially dilutive securities. Diluted EPS gives effect to the potential dilution that could occur if securities or other contracts to issue Common Stock were exercised or converted into Common Stock, using the more dilutive of the two-class method or if-converted method in periods of earnings. The two class method is an earnings allocation method that determines earnings per share for Common Stock and participating securities. As the Company experienced net losses for the periods presented, the impact of participating Series A Preferred Stock was calculated based on the "if-converted" method. Diluted EPS excludes all dilutive potential of shares of Common Stock if their effect is anti-dilutive.

For the year ended December 31, 2019 shares of the Company's Series A Preferred Stock, if converted would have resulted in an additional 5,250,129 shares of Common Stock outstanding, but were not included in the computation of diluted loss per share as their effects were anti-dilutive.

The Company has not included the effect of 35,000,000 warrants sold in the Quinpario Initial Public Offering ("IPO") and the effect of the aggregate number of shares issuable pursuant to outstanding restricted stock units and

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options of 5,247,005, 4,463,597, and 4,590,520, respectively in the calculation of diluted loss per share for the years ended December 31, 2019, 2018 and 2017 as their effects were anti-dilutive.

The components of basic and diluted EPS are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 (As Restated) | 2017 (As Restated) |
| Net loss attributable to common stockholders (A) | $ (512,425) | $ (173,461) | $ (228,348) |
| Weighted average common shares outstanding - basic and diluted (B) | 145,718,936 | 147,773,089 | 104,914,382 |
| **Loss Per Share:** | | | |
| Basic and diluted (A/B) | $ (3.52) | $ (1.17) | $ (2.18) |

The weighted average common shares outstanding - basic and diluted, in the table above, are excluding in each case the 4,570,734 shares returned to the Company in the first quarter of 2020 in connection with the Appraisal Action (the "Appraisal Shares").

**Business Combinations**

The Company includes the results of operations of the businesses acquired as of the respective dates of acquisition. The Company allocates the fair value of the purchase price of acquisitions to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value of the purchase price over the fair values of these identifiable assets and liabilities is recorded as goodwill.

**Fair Value Measurements**

The Company records the fair value of assets and liabilities in accordance with ASC 820, *Fair Value Measurement* ("ASC 820"). ASC 820 defines fair value as the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

In addition to defining fair value, ASC 820 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 — quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 — unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability at fair value.

*Refer to Note 15 — Fair Value Measurement* for further discussion.

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**Concentration of Credit Risk**

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents and trade receivables. The Company maintains its cash and cash equivalents and certain other financial instruments with highly rated financial institutions and limits the amount of credit exposure with any one financial institution. From time to time, the Company assesses the credit worthiness of its customers. Credit risk on trade receivables is minimized because of the large number of entities comprising the Company's client base and their dispersion across many industries and geographic areas. The Company generally has not experienced any material losses related to receivables from any individual customer or groups of customers. The Company does not require collateral. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed by management to be probable in the Company's accounts receivable, net. The Company does not have any significant customers that account for 10% or more of the total consolidated revenues.

**Recently Adopted Accounting Pronouncements**

Effective January 1, 2019, the Company adopted Accounting Standards Update ("ASU") no. 2016-02, *Leases (ASC 842)*. This ASU increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The Company adopted this guidance effective January 1, 2019, under the modified retrospective transition method provided by ASU 2018-11 with the following practical expedients below:

- Not to record leases with an initial term of 12 months or less on the balance sheet; and
- Not to reassess the (1) definition of a lease, (2) lease classification, and (3) initial direct costs for existing leases during transition.

The adoption had a material impact on the Company's unaudited consolidated balance sheets, but did not have a material impact on the Company's unaudited consolidated income statements and unaudited consolidated statements of cash flows. The most significant impact was the recognition of right-of-use assets and lease liabilities for operating leases, while the Company's accounting for finance leases remained substantially unchanged.

Effective January 1, 2019, the Company adopted ASU no. 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception.* Part I of this ASU addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this ASU addresses the difficulty of navigating Topic 480, *Distinguishing Liabilities from Equity*, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the year ended December 31, 2019.

Effective January 1, 2019, the Company adopted ASU no. 2017-12, *Derivatives and Hedging (Topic 815); Targeted Improvements to Accounting for Hedging Activities.* The amendments in this ASU better align the risk management activities and financial reporting for these hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the year ended December 31, 2019.

Effective January 1, 2019, the Company adopted ASU no. 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive*

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*Income*. The amendments in this ASU address a narrow-scope financial reporting issue related to the tax effects that may become “stranded” in accumulated other comprehensive income (“AOCI”) as a result of the Tax Cuts and Jobs Act (“TCJA”). An entity may elect to reclassify the income tax effects of the TCJA on items within AOCI to retained earnings. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the year ended December 31, 2019.

Effective January 1, 2019, the Company adopted ASU no. 2018-07, *Compensation—Stock Compensation (Topic 718):* Improvements to Nonemployee Share-Based Payment Accounting to amend the accounting for share-based payment awards issued to nonemployees. Under the revised guidance, the accounting for awards issued to nonemployees will be similar to the model for employee awards, except the ASU allows an entity to elect on an award-by-award basis to use the contractual term as the expected term assumption in the option pricing model, and the cost of the grant is recognized in the same period(s) and in the same manner as if the grantor had paid cash. The adoption had no impact on the Company's financial position, results of operations, and cash flows for the year ended December 31, 2019.

Effective January 1, 2018, the Company adopted Accounting Standards Update (“ASU”) no. 2014-09, Revenue from Contracts with Customers (ASC 606). Under ASU 2014-09, revenue is recognized based on a five-step model. The core principle of the model is that revenue will be recognized when the transfer of promised goods or services to customers is made in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted this standard using the modified retrospective approach applied to those contracts that were not completed as of January 1, 2018. The results for the reporting period beginning after January 1, 2018 are presented in accordance with the new standard, although historical information has not been restated and continues to be reported under the accounting standards and policies in effect for those periods. The adoption of ASC 606 had a material impact on the Company's financial position, results of operations and cash flows as of or for the period ended December 31, 2018, primarily due to the change in contract costs capitalization criteria. However, we expect the impact of the adoption of the new standard will be immaterial to our results of operations on an ongoing basis. The cumulative effect of accounting change recognized was $12.8 million recorded as an increase to beginning balance of accumulated deficit.

**Recently Issued Accounting Pronouncements**

In June 2016, the FASB issued ASU no. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,* to replace the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company will be required to use a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. The ASU is effective for the Company for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2018, the FASB issued ASU no. 2018-13, *Fair Value Measurement (Topic 82*0); which changes the fair value measurement disclosure requirements of ASC 820. The amendments in this ASU are the result of a broader disclosure project called FASB Concepts Statement, Conceptual Framework for Financial Reporting. The FASB used the guidance in the Concepts Statement to improve the effectiveness of ASC 820’s disclosure requirements. The objective of the disclosure requirements in this subtopic is to provide users of financial statements with information about assets and liabilities measured at fair value in the statement of financial position or disclosed in the notes to financial statements. The ASU includes but is not limited to the valuation techniques and inputs that a reporting entity uses to arrive at its measures of fair value, including judgments and assumptions that the entity makes, the uncertainty in the fair value measurements as of the reporting date, and how changes in fair value measurements affect an entity’s performance and cash flows. The ASU is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted for any eliminated or modified disclosures upon issuance

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of this ASU. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In August 2018, the FASB issued ASU no. 2018-15, *Intangibles, Goodwill, and Other - Internal Use Software (Subtopic 350-40): Customer's accounting for implementation costs incurred in a Cloud Computing Arrangement that is a service contract.* The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). Accordingly, the amendments require an entity (customer) in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments also require the entity (customer) to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, which includes reasonably certain renewals. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In November 2019, the FASB issued ASU no. 2019-08, *Codification Improvements — Share-Based Consideration Payable to a Customer*. This ASU clarifies the accounting for share-based payments issued as consideration payable to a customer in accordance with ASC 606. Under the ASU, entities apply the guidance in ASC 718 to measure and classify share-based payments issued to a customer that are not in exchange for a dis tinct good or service (i.e., share-based sales incentives). Accordingly, entities use a fair-value-based measure to calculate such incentives on the grant date, which is the date on which the grantor (the entity) and the grantee (the customer) reach a mutual understanding of the key terms and conditions of the share-based consideration. The result is reflected as a reduction of revenue in accordance with the guidance in ASC 606 on consideration payable to a customer. After initial recognition, the measurement and classification of the share-based sales incentives continue to be subject to ASC 718 unless (1) the award is subsequently modified when vested and (2) the grantee is no longer a customer. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

In December 2019, the FASB issued ASU no. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU simplifies the accounting for income taxes by eliminating some exceptions to the general approach in ASC 740, *Income Taxes,* for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. The ASU adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating taxes to members of a consolidated group. It also clarifies certain aspects of the existing guidance to promote more consistent application, among other things. The ASU is effective for the Company for fiscal years beginning after December 15, 2020, including interim periods therein. Early adoption is permitted. The Company is currently in the early stages of evaluating the impact that adopting this standard will have on the consolidated financial statements.

**3. Restatement of Previously Issued Financial Statements**

On March 11, 2020, management in concurrence with the Audit Committee of the Board of Directors, concluded that our 2018 and 2017 consolidated financial statements, included in our Annual Reports on Form 10-K as of and for the fiscal years ended December 31, 2018 and 2017, and our unaudited consolidated financial statements as of and for each of the first three quarterly periods in 2019 and all quarterly periods in 2018, included in our Quarterly Reports on Form 10-Q for the respective periods, should no longer be relied upon due to misstatements that are described in greater detail below, and that we would restate such financial statements to make the necessary accounting corrections. Details of the restated consolidated financial statements as of and for the fiscal years ended December 31, 2018 and 2017 are provided below. In addition, details of the restated interim financial information for each of the quarterly periods in fiscal 2018 and for the first three quarters of fiscal 2019, as presented in Note 20, *Unaudited Quarterly Financial Data*.

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The restatements reflect adjustments to correct errors including the Company's non-accrual of a liability related to dissenting shareholders arising out of the Novitex Business Combination, the under accrual of certain reimbursement obligations under the Consent, Waiver and Amendment, certain errors in recognition of revenues under ASC 605, incorrect classification of the loss on extinguishment of debt as cash flows from financing activities instead of cash flows from operating activities, incorrect capitalization of outsourced contracts costs and other miscellaneous adjustments. The nature and impact of these adjustments are described below and detailed in the tables below. Also see Note 20,

*Unaudited Quarterly Financial Data*, for the impact of these adjustments on each of the quarterly periods.

*(a)* Appraisal Action Liability Adjustments

During the fourth quarter of fiscal 2019, the Company identified an error as a result of non-accrual of liability and interest thereon for the obligation to pay the fair market value of the shares of certain former stockholders of SourceHOV under the Appraisal Action. As previously reported, on September 21, 2017, former stockholders of SourceHOV, who owned 10,304 shares of SourceHOV common stock, filed a petition for Appraisal Action arising out of the Novitex Business Combination. In the Appraisal Action, the petitioners sought, among other things, a determination of the fair value of their shares at the time of the Novitex Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses. The parties and their experts offered competing valuations of the SourceHOV shares as of the date of the Novitex Business Combination. On January 30, 2020, the Court issued its post-trial Memorandum Opinion in the Appraisal Action, in which it found that the fair value of SourceHOV as of the Closing Date was $4,591 per share, and on March 26, 2020, the Court issued its final order and judgment awarding the petitioners $57,698,426 inclusive of costs and interest. Per the Court's opinion, the legal rate of interest, compounded quarterly, accrues on the per share value from the Closing Date until the date of payment to petitioners. As a result of the Appraisal Action, 4,570,734 shares of our Common Stock issued to Ex-Sigma 2, our principal stockholder at the Closing of the Novitex Business Combination, have been returned to the Company during the first quarter of 2020. Interest accrues on the value of the shares from the date of the Business Combination until the liability is paid. Until the third quarter of 2019, the Company had included a disclosure on the Appraisal Action as a part of the *Commitment and Contingencies* footnote in its consolidated financial statements but had not recorded a liability or accrued interest thereon for the obligation. After evaluating the historical accounting treatment applied to the Appraisal Action, the Company has determined that its historical accounting was in error and the obligation to pay the fair market value of the former stockholders' shares represented an obligation as of the date the Appraisal Action was submitted in September 2017. The liability should have been recorded in 2017 at the estimated fair value of the shares tendered. This error resulted in $43.1 million, $40.6 million and $37.8 million understatement of accrued liabilities and commensurate understatement of total stockholders' deficit, as at September 30, 2019, December 31, 2018 and 2017, respectively. Further, this error resulted in $2.4 million, $2.9 million and $1.2 million understatement of loss for the nine months ended September 30, 2019 and for the years ended December 31, 2018 and 2017, respectively, due to the unrecorded interest expense accrual associated with the Company's obligations related to the Appraisal Action. Interest should have been accrued in the relevant periods at the rate set by the Delaware Court of Chancery. The correction of this error also reduced the number of shares outstanding by 4,570,734 shares for purposes of the weighted average outstanding common shares computation used to calculate basic and diluted loss per share during the respective periods. These are the number of shares of our Common Stock issued at the Closing of the Novitex Business Combination to Ex-Sigma 2 in respect of the former stockholders' shares subject to the Appraisal Action that were returned to the Company during the first quarter of 2020.

*(b)* Outsourced Contract Cost Adjustments

A $5.3 million understatement of loss for the nine months ended September 30, 2019 and a $3.2 million overstatement of loss for the year ended December 31, 2018, due to incorrect capitalization of employee training related costs during the set-up phase as costs of fulfilling contracts which should have been expensed under ASC 340-40. Additionally, an adjustment of $15.4 million was recorded to increase accumulated deficit as of January 1, 2018 to correct the previously-recorded transition adjustment for costs of fulfilling contracts upon the adoption of ASC 606 and ASC 340-40. These errors resulted in $17.3 million and $12.0 million overstatement of intangible assets, net as of September 30, 2019 and December 31, 2018, respectively.

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*(c)* Other Misstatement Adjustments

*Expense Reimbursement Adjustments*:

During the second half of 2019, we reimbursed Ex-Sigma 2 approximately $4.5 million in total, out of that $2.1 million of underwriting discount and commission expenses and $0.3 million of advisory fee were incurred by Ex-Sigma 2 in a secondary offering in April 2018 and $2.1 million of expenses related to the discount to the market price on shares sold by Ex-Sigma 2 in a secondary offering in June 2019 and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment, amending the Novitex Business Combination Agreement, dated February 21, 2017. Approximately $2.4 million and $2.1 million of these expenses should have been recorded in the 2018 and the second quarter of 2019, respectively. This error resulted in a $2.1 million and $2.4 million understatement of loss for the quarter ended June 30, 2019 and for the year ended December 31, 2018, respectively.

Further, $1.5 million paid to Ex-Sigma 2 in July 2019 for the fees incurred in connection with the secondary offering, out of total reimbursement of $4.5 million in the second half of 2019 as discussed above, was erroneously recorded as selling, general and administrative expenses in the third quarter of 2019. This error resulted in a $1.5 million overstatement of loss for the third quarter of 2019.

Additionally, the Company did not record related party expense accrual associated with the Company's obligation to reimburse Ex-Sigma 2 in connection with premium payments made by Ex-Sigma 2 under the Margin Loan and required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment. It resulted in a $1.7 million and $5.2 million understatement of loss for the nine months ended September 30, 2019 and for the year ended December 31, 2018.

The above errors, together, resulted in an understatement of related party payables by $5.0 million as of the reported interim quarters ended June 30, 2018 and September 30, 2018; an understatement of related party payables by $7.6 million as of the year ended December 31, 2018 and the reported interim quarter ended March 31, 2019; and an understatement of related party payables by $11.4 million and $9.9 million as of the quarters ended June 30, 2019 and September 30, 2019, respectively.

The Company incorrectly classified $0.5 million and $0.4 million of related party expense as selling, general and administrative expenses for the nine months ended September 30, 2019 and for the year ended December 31, 2018, respectively. This resulted in an overstatement of selling, general and administrative expenses and understatement of related party expense. This error had no impact on net loss.

*Revenue Recognition Adjustments*:

A $4.8 million understatement of loss, for the year ended December 31, 2017, was due to incorrect recognition of revenue of $6.4 million and related cost of revenue of $1.6 million in 2017 related to a multiple element arrangement that included a software license where vendor specific objective evidence (VSOE) of fair value was not established for the undelivered elements of the arrangement under the previous revenue recognition guidance in ASC 985-605. This error resulted in a $6.4 million understatement of deferred revenue and a $1.6 million understatement of prepaid expenses and other current assets as at December 31, 2017. After correction of this error in the fiscal 2017 financial statements, the Company derecognized this deferred revenue of $6.4 million and prepaid expenses and other current assets of $1.6 million, resulting in net increase in the retained earnings of $4.8 million on adoption of ASC 606 and ASC 340-40 on January 1, 2018.

Further, a $1.9 million understatement of revenues and understatement of cost of revenue by the same amount for the nine months ended September 30, 2019, were due to incorrect application of the gross vs. net presentation guidance under ASC 606. The Company incorrectly netted the costs of rendering service from the revenue under a contract with one customer. This error had no impact on net loss.

*Cash Flows Classification Adjustments*:

The Company determined that operating cash flows were understated and financing cash flows overstated in the statement of cash flows by $0.1 million and $34.5 million for the years ended December 31, 2018 and 2017,

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respectively, as a result of the incorrect interpretation of ASU 2016-15 (*Classification of Certain Receipts and Cash Payments*) and application on a retrospective basis upon adoption of ASU 2016-15 in 2018. Further, the Company determined that operating cash flows were overstated and investing cash flows understated in the statement of cash flows by $14.3 million, $7.5 million and $11.0 million for the nine months ended September 30, 2019 and for the years ended December 31, 2018 and 2017, respectively, as a result of misclassification of cash flows associated with outsourced contract costs.

*Other Adjustments:*

In addition to the errors described above, the restated financial statements also include adjustments to correct certain other immaterial errors, including previously unrecorded immaterial adjustments identified in audits of prior years' financial statements.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Balance Sheets**
(in thousands of United States dollars except share and per share amounts)

| | As of December 31, 2018 | | | |
|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ 25,615 | $ 10,591 | $ 36,206 | c |
| Restricted cash | 18,239 | (10,591) | 7,648 | c |
| Accounts receivable, net of allowance for doubtful accounts of $4,359 | 270,812 | — | 270,812 | |
| Inventories, net | 16,220 | — | 16,220 | |
| Prepaid expenses and other current assets | 25,015 | (78) | 24,937 | c |
| **Total current assets** | **355,901** | **(78)** | **355,823** | |
| Property, plant and equipment, net of accumulated depreciation of $154,060 | 132,986 | — | 132,986 | |
| Goodwill | 708,258 | — | 708,258 | |
| Intangible assets, net | 407,021 | (12,001) | 395,020 | b |
| Deferred income tax assets | 16,225 | 120 | 16,345 | c |
| Other noncurrent assets | 19,391 | — | 19,391 | |
| **Total assets** | **$ 1,639,782** | **$ (11,959)** | **$ 1,627,823** | |
| **Liabilities and Stockholders' Equity (Deficit)** | | | | |
| **Liabilities** | | | | |
| Current liabilities | | | | |
| Accounts payables | $ 99,853 | $ — | $ 99,853 | |
| Related party payables | 7,735 | 7,628 | 15,363 | c |
| Income tax payable | 1,996 | — | 1,996 | |
| Accrued liabilities | 66,008 | 41,347 | 107,355 | a, c |
| Accrued compensation and benefits | 54,583 | (2,372) | 52,211 | c |
| Accrued interest | 49,071 | — | 49,071 | |
| Customer deposits | 34,235 | — | 34,235 | |
| Deferred revenue | 16,504 | — | 16,504 | |
| Obligation for claim payment | 56,002 | — | 56,002 | |
| Current portion of finance lease liabilities | 17,498 | — | 17,498 | |
| Current portion of long-term debts | 29,237 | — | 29,237 | |
| **Total current liabilities** | **432,722** | **46,603** | **479,325** | |
| Long-term debt, net of current maturities | 1,306,423 | — | 1,306,423 | |
| Finance lease liabilities, net of current portion | 26,738 | — | 26,738 | |
| Pension liabilities | 25,269 | 2,372 | 27,641 | c |
| Deferred income tax liabilities | 11,212 | 2 | 11,214 | c |
| Long-term income tax liabilities | 3,024 | — | 3,024 | |
| Other long-term liabilities | 15,400 | (683) | 14,717 | c |
| **Total liabilities** | **1,820,788** | **48,294** | **1,869,082** | |
| Commitments and Contingencies (Note 14) | | | | |
| **Stockholders' equity (deficit)** | | | | |
| Common stock, par value of $0.0001 per share; 1,600,000,000 shares authorized; 152,692,140 shares issued and 150,142,955 shares outstanding (including the 4,570,734 shares returned to the Company in the first quarter of 2020 in connection with the Appraisal Action) | 15 | — | 15 | |
| Preferred stock, par value of $0.0001 per share; 20,000,000 shares authorized; 4,569,233 shares issued and outstanding | 1 | — | 1 | |
| Additional paid in capital | 482,018 | (36,566) | 445,452 | |
| Less: Common Stock held in treasury, at cost; 2,549,185 shares | (10,342) | — | (10,342) | |
| Equity-based compensation | 41,731 | — | 41,731 | |
| Accumulated deficit | (678,563) | (23,829) | (702,392) | |
| Accumulated other comprehensive loss: | | | | |
| Foreign currency translation adjustment | (6,565) | 142 | (6,423) | |
| Unrealized pension actuarial losses, net of tax | (9,301) | — | (9,301) | |
| Total accumulated other comprehensive loss | (15,866) | 142 | (15,724) | |
| **Total stockholders' deficit** | **(181,006)** | **(60,253)** | **(241,259)** | |
| **Total liabilities and stockholders' deficit** | **$ 1,639,782** | **$ (11,959)** | **$ 1,627,823** | |

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***As of December 31, 2018***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $40.6 million to accrued liabilities at December 31, 2018.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $12.0 million of decrease to intangible assets, net at December 31, 2018.

(c) Other Misstatement Adjustments:

*Expense Reimbursement Adjustments:* The correction of this misstatement resulted in an increase of $7.6 million to related party payables.

*Other Adjustments - Corrections to other misstatements were as follows:* (i) Reclassification of operating accounts that are not restricted resulted in an increase of $10.6 million in cash and cash equivalents and decrease of $10.6 million to restricted cash. (ii) Reclassification of pension liabilities between long-term and short-term resulted in a decrease of $2.4 million to Accrued compensation and benefits and an increase of $2.4 million to pension liabilities. (iii) Correction of ASC 842 implementation related deferred rents decreased other long-term liabilities by $0.7 million. (iv) Correction of non-accrual of legal expenses related to 2019 resulted in an increase of $0.7 million to accrued liabilities.

**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Operations**
(in thousands of United States dollars except per share amounts)

| | For the Year Ended December 31, 2018 | | | For the Year Ended December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| Revenue | $ 1,586,222 | $ — | $ 1,586,222 | $ 1,152,324 | $ (6,433) | $ 1,145,891 | c |
| Cost of revenue (exclusive of depreciation and amortization) | 1,209,874 | 3,529 | 1,213,403 | 829,143 | (1,599) | 827,544 | b, c |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 184,651 | 257 | 184,908 | 220,955 | — | 220,955 | c |
| Depreciation and amortization | 145,485 | (7,408) | 138,077 | 98,890 | — | 98,890 | b |
| Impairment of goodwill and other intangible assets | 48,127 | — | 48,127 | 69,437 | — | 69,437 | |
| Related party expense | 4,334 | 8,069 | 12,403 | 33,431 | — | 33,431 | c |
| **Operating loss** | **(6,249)** | **(4,447)** | **(10,696)** | **(99,532)** | **(4,834)** | **(104,366)** | |
| **Other expense (income), net:** | | | | | | | |
| Interest expense, net | 153,095 | 2,896 | 155,991 | 128,489 | 1,187 | 129,676 | a |
| Debt modification and extinguishment costs | 1,067 | — | 1,067 | 35,512 | — | 35,512 | |
| Sundry expense (income), net | (3,271) | — | (3,271) | 2,295 | — | 2,295 | |
| Other expense (income), net | (3,030) | — | (3,030) | (1,297) | — | (1,297) | |
| **Net loss before income taxes** | **(154,110)** | **(7,343)** | **(161,453)** | **(264,531)** | **(6,021)** | **(270,552)** | |
| Income tax (expense) benefit | (8,407) | 54 | (8,353) | 60,246 | 822 | 61,068 | |
| **Net loss** | **$ (162,517)** | **$ (7,289)** | **$ (169,806)** | **$ (204,285)** | **$ (5,199)** | **$ (209,484)** | |
| Dividend equivalent on Series A Preferred Stock related to beneficial conversion feature | — | — | — | (16,375) | — | (16,375) | |
| Cumulative dividends for Series A Preferred Stock | (3,655) | — | (3,655) | (2,489) | — | (2,489) | c |
| **Net loss attributable to common stockholders** | **$ (166,172)** | **$ (7,289)** | **$ (173,461)** | **$ (223,149)** | **$ (5,199)** | **$ (228,348)** | |
| **Loss per share:** | | | | | | | |
| Basic and diluted | $ (1.09) | $ (0.08) | $ (1.17) | $ (2.08) | $ (0.10) | $ (2.18) | |

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***For the year ended December 31, 2018***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $2.9 million to interest expense for the year ended December 31, 2018.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $4.2 million of increase to cost of revenue and a decrease of $7.4 million to depreciation and amortization for the year ended December 31, 2018.

(c) Other Misstatement Adjustments:

*Expense Reimbursement Adjustments:* The correction of this misstatement resulted in an increase of $8.1 million to related party.

*Other Adjustments - Corrections to other misstatements were as follows:* (i) Correction of ASC 842 implementation related deferred rents decreased cost of revenue by $0.7 million. (ii) Correction of non-accrual of legal expenses related to 2019 resulted in an increase of $0.3 million to selling, general and administrative expenses.

***For the year ended December 31, 2017***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $1.2 million to interest expense for the year ended December 31, 2018.

(c) Other Misstatement Adjustments:

*Revenue Recognition Adjustments:* The correction of this misstatement resulted in a decrease of $6.4 million to revenue and a decrease of $1.6 million to cost of revenue for the year ended December 31, 2017.

*Other Adjustments - Corrections to other misstatements were as follows:* (i) The correction of all misstatements resulted in an increase of $0.8 million to income tax expense.

**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Comprehensive Loss**
(in thousands of United States dollars)

| | For the Year Ended December 31, 2018 | | | For the Year Ended December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Net loss** | $ (162,517) | $ (7,289) | $ (169,806) | $ (204,285) | $ (5,199) | $ (209,484) | |
| Other comprehensive income (loss), net of tax: | | | | | | | |
| Foreign currency translation adjustments | (6,371) | 167 | (6,204) | 3,353 | (25) | 3,328 | c |
| Unrealized pension actuarial gains (losses), net of tax | 1,753 | — | 1,753 | 1,285 | — | 1,285 | |
| **Total other comprehensive loss, net of tax** | **$(167,135)** | **$ (7,122)** | **$(174,257)** | **$(199,647)** | **$ (5,224)** | **$(204,871)** | |

***For the year ended December 31, 2018***

The $2.1 million decrease to net income was primarily driven by the misstatements in the Appraisal Action liability adjustments, outsourced contract adjustments, expense reimbursement adjustments and other adjustments. See additional

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descriptions of the net income impacts in the consolidated statement of operations for the year ended December 31, 2018 section above.

***For the year ended December 31, 2017***

The $5.2 million decrease to net income was primarily driven by the misstatements in the Appraisal Action liability adjustments, revenue recognition adjustments and other adjustments. See additional descriptions of the net income impacts in the consolidated statement of operations for the year ended December 31, 2017 section above.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Cash Flows**
(in thousands of United States dollars)

| | For the Year Ended December 31, 2018 | | | For the Year Ended December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Cash flows from operating activities** | | | | | | | |
| Net loss | $ (162,517) | $ (7,289) | (169,806) | $ (204,285) | $ (5,199) | (209,484) | |
| Adjustments to reconcile net loss | | | | | | — | |
| Depreciation and amortization | 145,485 | (7,408) | 138,077 | 98,890 | — | 98,890 | b |
| Fees paid in stock | — | — | — | 23,875 | 4,698 | 28,573 | c |
| HGM contract termination fee paid in stock | — | — | — | 10,000 | — | 10,000 | |
| Original issue discount and debt issuance cost amortization | 10,913 | — | 10,913 | 12,280 | — | 12,280 | |
| Debt modification and extinguishment costs | — | 103 | 103 | — | 34,459 | 34,459 | c |
| Impairment of goodwill and other intangible assets | 48,127 | — | 48,127 | 69,437 | — | 69,437 | |
| Provision for doubtful accounts | 2,767 | — | 2,767 | 500 | — | 500 | |
| Deferred income tax provision | 3,352 | (132) | 3,220 | (66,723) | (822) | (67,545) | c |
| Share-based compensation expense | 7,647 | — | 7,647 | 6,743 | — | 6,743 | |
| Foreign currency remeasurement | (1,180) | — | (1,180) | 1,382 | — | 1,382 | |
| Loss (gain) on sale of assets | 2,095 | 592 | 2,687 | 399 | 157 | 556 | c |
| Fair value adjustment for interest rate swap | (2,540) | — | (2,540) | (1,297) | — | (1,297) | |
| Change in operating assets and liabilities, net of effect from acquisitions | | | | | | | |
| Accounts receivable | (19,319) | — | (19,319) | (4,832) | — | (4,832) | |
| Prepaid expenses and other assets | (2,820) | — | (2,820) | 2,628 | (1,599) | 1,029 | c |
| Accounts payable and accrued liabilities | 5,157 | 3,658 | 8,815 | 69,551 | 7,620 | 77,171 | c |
| Related party payables | (6,710) | 7,628 | 918 | 4,907 | — | 4,907 | c |
| Additions to outsource contract costs | — | (4,009) | (4,009) | — | (10,992) | (10,992) | b |
| **Net cash provided by (used in) operating activities** | **30,457** | **(6,857)** | **23,600** | **23,455** | **28,322** | **51,777** | |
| **Cash flows from investing activities** | | | | | | | |
| Purchase of property, plant and equipment | (20,072) | — | (20,072) | (14,440) | — | (14,440) | |
| Additions to internally developed software | (7,438) | — | (7,438) | (7,843) | — | (7,843) | |
| Additions to outsourcing contract costs | (7,552) | 7,552 | — | (10,992) | 10,992 | — | b |
| Cash acquired in Quinpario reverse merger | — | — | — | 91 | — | 91 | |
| Cash paid in acquisition, net of cash received | (34,810) | — | (34,810) | (423,797) | — | (423,797) | |
| Proceeds from sale of assets | 3,568 | — | 3,568 | 4,607 | — | 4,607 | |
| **Net cash provided by (used in) investing activities** | **(66,304)** | **7,552** | **(58,752)** | **(452,374)** | **10,992** | **(441,382)** | |
| **Cash flows from financing activities** | | | | | | | |
| Change in bank overdraft | — | — | — | (210) | — | (210) | |
| Loss on extinguishment of debt | 1,067 | (1,067) | — | 35,512 | (35,512) | — | c |
| Proceeds from issuance of stock | — | — | — | 204,417 | — | 204,417 | |
| Cash received from Quinpario | — | — | — | 27,031 | (4,698) | 22,333 | c |
| Repurchases of Common Stock | (7,221) | — | (7,221) | (249) | — | (249) | |
| Contribution from Shareholders | — | — | — | 20,548 | — | 20,548 | |
| Cash paid for equity issuance costs | (7,500) | — | (7,500) | (149) | — | (149) | |
| Lease terminations | — | (592) | (592) | — | (157) | (157) | c |
| Retirement of previous credit facilities | — | — | — | (1,055,736) | — | (1,055,736) | |
| Cash paid for debt issuance costs | (1,094) | 964 | (130) | (39,837) | 1,053 | (38,784) | c |
| Principal payments on finance lease obligations | (16,068) | — | (16,068) | (11,361) | — | (11,361) | |
| Borrowings from senior secured revolving facility | 30,000 | — | 30,000 | 72,600 | — | 72,600 | |
| Repayments on senior secured revolving facility | (30,000) | — | (30,000) | (72,500) | — | (72,500) | |
| Proceeds from issuance of notes | — | — | — | 977,500 | — | 977,500 | |
| Proceeds from senior secured term loans | 30,000 | — | 30,000 | 343,000 | — | 343,000 | |
| Borrowings from other loans | 11,557 | — | 11,557 | 3,116 | — | 3,116 | |
| Principal repayments on senior secured term loans and other loans | (12,651) | — | (12,651) | (27,955) | — | (27,955) | |
| **Net cash provided by (used in) financing activities** | **(1,910)** | **(695)** | **(2,605)** | **475,727** | **(39,314)** | **436,413** | |
| Effect of exchange rates on cash | 122 | — | 122 | 429 | — | 429 | |
| **Net decrease in cash and cash equivalents** | **(37,635)** | **—** | **(37,635)** | **47,237** | **—** | **47,237** | |
| Cash, restricted cash, and cash equivalents | | | | | | | |
| Beginning of period | 81,489 | — | 81,489 | 34,252 | — | 34,252 | |
| End of period | $ 43,854 | $ — | $ 43,854 | $ 81,489 | $ — | $ 81,489 | |
| **Supplemental cash flow data:** | | | | | | | |
| Income tax payments, net of refunds received | $ 7,827 | $ — | $ 7,827 | $ 5,711 | $ — | $ 5,711 | |
| Interest paid | 146,076 | — | 146,076 | 69,622 | — | 69,622 | |
| **Noncash investing and financing activities:** | | | | | | | |
| Assets acquired through right-of-use arrangements | 14,920 | — | 14,920 | 6,973 | — | 6,973 | |
| Leasehold improvements funded by lessor | 1,565 | — | 1,565 | 146 | — | 146 | |
| Issuance of Common Stock as consideration for Novitex | — | — | — | 244,800 | — | 244,800 | |
| Accrued capital expenditures | 2,820 | — | 2,820 | 1,621 | — | 1,621 | |
| Dividend equivalent on Series A Preferred Stock | — | — | — | 16,375 | — | 16,375 | |
| Liability assumed of Quinpario | — | — | — | 4,672 | 26 | 4,698 | |

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***For the year ended December 31, 2018***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the year ended December 31, 2018 above.

Cash flow classification adjustment related to incorrect interpretation of ASU 2016-15 (Classification of Certain Receipts and Cash Payments) in 2018 resulted in a net increase to cash flows provided by operating activities of $0.1 million, a decrease to net cash flows provided by financing activities of $0.1 million for the year ended December 31, 2018. (Debt modification and extinguishment costs, loss on extinguishment of debt & cash paid for debt issuance costs)

The misstatements in the cash flow misclassifications category related to lease terminations resulted in a decrease to net cash flows provided by financing activities of $0.6 million and an increase to net cash flows provided by operating activities of $0.6 million for the year ended December 31, 2018. (Loss on sale of assets and lease terminations)

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of $11.4 million ($7.4 million of depreciation and amortization and $4.0 million of additions to outsourcing contract costs), and an increase to net cash flows provided by investing activities of $7.6 million (Additions to outsourcing contract costs) for the year ended December 31, 2018.

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the year ended December 31, 2018.

***For the year ended December 31, 2017***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the year ended December 31, 2017 above.

Cash flow classification adjustment related to incorrect interpretation of ASU 2016-15 (Classification of Certain Receipts and Cash Payments) in 2017 resulted in a net increase to cash flows provided by operating activities of $34.5 million, a decrease to net cash flows provided by financing activities of $34.5 million for the year ended December 31, 2017 (Debt modification and extinguishment costs, loss on extinguishment of debt & cash paid for debt issuance costs).

The misstatements in the cash flow misclassifications category related to (a) Lease terminations resulted in a decrease to net cash flows provided by financing activities of $0.2 million and an increase to net cash flows provided by operating activities of $0.2 million (loss on sale of assets and lease terminations) and (b) Fees paid in stock to Quinpario resulted in an increase of $4.7 million to net cash provided by operating activities and a decrease of $4.7 million to cash flows provided by net financing cash flow activities for the year ended December 31, 2017.

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of $11.0 million (Additions to outsourcing contract costs), and an increase to net cash flows provided by investing activities of $11.0 million (Additions to outsourcing contract costs) for the year ended December 31, 2017.

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the year ended December 31, 2017.

**4. Business Combinations**

**Asterion**

On April 10, 2018, Exela completed the acquisition of Asterion International Group ("Asterion," the "Asterion Business Combination"), a well-established provider of technology driven business process outsourcing, document

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management and business process automation across Europe. The purchase price was approximately $19.5 million. The acquisition was strategic to expanding Exela's European business.

The acquired assets and assumed liabilities of Asterion were recorded at their estimated fair values. The following table summarizes the consideration paid for Asterion and the fair value of the assets acquired and liabilities assumed at the acquisition date on April 10, 2018:

| | |
|---|---|
| **Assets Acquired:** | |
| Cash and cash equivalents | $ 5,595 |
| Accounts receivable | 25,740 |
| Other current assets | 2,282 |
| Inventories | 1,137 |
| Property, plant, and equipment | 4,747 |
| Deferred income tax assets | 6,316 |
| Other noncurrent assets | 522 |
| Intangible assets | 3,525 |
| Goodwill | 1,493 |
| Total identifiable assets acquired | $ 51,357 |
| **Liabilities Assumed:** | |
| Accounts payable | $ (5,596) |
| Income tax payable | (5) |
| Accrued liabilities | (6,593) |
| Accrued compensation and benefits | (7,079) |
| Deferred revenue | (880) |
| Current portion of long term debt | (994) |
| Customer deposits | (462) |
| | (7,135) |
| Pension liabilities | |
| Other long-term liabilities | (1,324) |
| Deferred income tax liabilities | (1,171) |
| Capital lease obligations, net of current maturities | (650) |
| Total liabilities assumed | $ (31,889) |
| Total Consideration | $ 19,468 |

The majority of identifiable intangible assets consisted of customer relationships. Customer relationships were valued using the Income Approach, specifically the Multi-Period Excess Earnings method. This intangible acquired represents a Level 3 measurement as it is based on unobservable inputs reflecting Management's own assumptions about the inputs used in pricing the asset at fair value.

| | Weighted Average Useful Life (in years) | Fair Value |
|---|---|---|
| Customer Relationships | 9.5 | $ 3,516 |

Through the acquisition of Asterion, we expect to leverage brand awareness, strengthen margins, and expand the existing Asterion sales channels. These factors, among others, contributed to a purchase price in excess of the estimated fair value of Asterion's identifiable net assets assumed, and as a result, the Company has recorded goodwill in connection with this acquisition. Exela recognized $73.9 million and $59.7 million in revenue related to Asterion in the Consolidated Statements of Operations for the years ended December 31, 2019 and 2018, respectively. The pro-forma financial statements of Asterion are not considered material from an overall disclosure perspective, and therefore, are not included here.

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**5. Accounts Receivable**

Accounts receivable, net consist of the following:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Billed receivables | $ 222,168 | $ 226,252 |
| Unbilled receivables | 34,135 | 39,498 |
| Other | 10,072 | 9,421 |
| Less: Allowance for doubtful accounts | (4,975) | (4,359) |
| | $ 261,400 | $ 270,812 |

Unbilled receivables represent balances recognized as revenue that have not been billed to the customer. The Company's allowance for doubtful accounts is based on a policy developed by historical experience and management judgment. Adjustments to the allowance for doubtful accounts may occur based on market conditions or specific client circumstances.

**6. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consist of the following:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Prepaids | $ 23,243 | $ 24,712 |
| Deposits | 420 | 225 |
| | $ 23,663 | $ 24,937 |

**7. Leases**

The following table summarizes the impact of the changes made to the January 1, 2019 consolidated balance sheet for the adoption of the new accounting standard pertaining to leases. The prior per

iods have not been restated and have been reported under the accounting standard in effect for those periods.

| | Balance at December 31, 2018 (As Restated) | Impact of Lease Standard | Balance at January 1, 2019 |
|---|---|---|---|
| Total assets | $ 1,627,823 | $ 104,214 | $ 1,732,037 |
| Total current liabilities | 479,325 | 25,685 | 505,010 |
| Total long-term liabilities | 1,389,757 | 79,028 | 1,468,785 |

The increase in total assets and total liabilities at January 1, 2019 from December 31, 2018 was due to the impact from the adoption of the new accounting standard pertaining to lease arrangements.

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Company's ROU assets and lease liabilities as of December 31, 2019 are recorded on the consolidated balance sheet as follows:

| | December 31, 2019 |
|---|---|
| *Balance sheet location:* | |
| **Operating Lease** | |
| Operating lease right-of-use assets, net | $ 93,627 |
| Current portion of operating lease liabilities | 25,345 |
| Operating lease liabilities, net of current portion | 73,282 |
| **Finance Lease** | |
| Finance lease right-of-use assets, net (included in property, plant and equipment, net) | 30,835 |
| Current portion of finance lease liabilities | 13,788 |
| Finance lease liabilities, net of current portion | 20,272 |

As of December 31, 2019, the weighted-average remaining lease term of operating leases and finance leases was 4.8 years and 3.2 years, respectively. The weighted-average discount rate for operating leases and finance leases was 10.5% and 9.1%, respectively.

The interest on financing lease liabilities for the year ended December 31, 2019 was $3.3 million. The amortization expense on finance lease right-of-use assets for the year ended December 31, 2019 was $15.1 million.

The following table summarizes maturities of finance and operating lease liabilities based on lease term as of December 31, 2019:

| | Finance Leases | Operating Leases |
|---|---|---|
| 2020 | $ 16,282 | $ 33,315 |
| 2021 | 10,652 | 26,210 |
| 2022 | 5,696 | 20,589 |
| 2023 | 2,941 | 15,348 |
| 2024 | 2,632 | 11,606 |
| 2025 and thereafter | 1,554 | 17,356 |
| Total lease payments | 39,757 | 124,424 |
| Less: Imputed interest | (5,697) | (25,797) |
| Present value of lease liabilities | $ 34,060 | $ 98,627 |

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At December 31, 2018, the Company had the following future minimum payments due under non-cancelable leases:

| | Finance Leases | Operating Leases |
|---|---|---|
| 2019 | $ 20,080 | $ 38,057 |
| 2020 | 11,851 | 29,346 |
| 2021 | 9,018 | 22,239 |
| 2022 | 4,169 | 16,782 |
| 2023 | 2,244 | 12,302 |
| 2024 and thereafter | 3,617 | 18,874 |
| Total minimum lease payments | $ 50,979 | $ 137,600 |
| Less: imputed interest | (6,743) | |
| Total net minimum lease payments | 44,236 | |
| Less: Current portion of obligations under finance leases | (17,498) | |
| Long-term portion of obligations under finance leases | $ 26,738 | |

Consolidated rental expense for all operating leases was $77.3 million, $83.8 million, and $60.0 million for the years ended December 31, 2019, 2018, and 2017, respectively.

The following table summarizes the cash paid and related right-of-use operating finance or operating lease recognized for the year ended December 31, 2019.

| | Year Ended December 31, 2019 |
|---|---|
| **Cash paid for amounts included in the measurement of lease liabilities:** | |
| Operating cash flows from operating leases | $ 50,398 |
| Financing cash flows from finance leases | 20,860 |
| **Right-of-use lease assets obtained in the exchange for lease liabilities:** | |
| Operating leases | 19,127 |
| Finance leases | 10,731 |

**8. Property, Plant and Equipment, Net**

Property, plant, and equipment, which include assets recorded under finance leases, are stated at cost less accumulated depreciation, and amortization, and consist of the following:

| | Estimated Useful Lives (in Years) | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| Land | N/A | $ 6,884 | $ 6,888 |
| Buildings and improvements | 7 – 40 | 20,288 | 20,518 |
| Leasehold improvements | Shorter of life of improvement or lease term | 47,036 | 56,589 |
| Vehicles | 5 – 7 | 531 | 717 |
| Machinery and equipment | 5 – 15 | 28,489 | 62,746 |
| Computer equipment and software | 3 – 8 | 92,500 | 130,864 |
| Furniture and fixtures | 5 – 15 | 9,440 | 8,724 |
| Finance lease right-of-use assets | Shorter of life of the asset or lease term | 85,464 | — |
| | | 290,632 | 287,046 |
| Less: Accumulated depreciation and amortization | | (176,995) | (154,060) |
| Property, plant and equipment, net | | $ 113,637 | $ 132,986 |

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Depreciation expense related to property, plant and equipment was $41.4 million, $43.1 million, and $31.7 million for the years ended December 31, 2019, 2018, and 2017, respectively.

**9. Intangible Assets and Goodwill**

**Intangibles**

Intangible assets are stated at cost or acquisition-date fair value less amortization and impairment and consist of the following:

| | December 31, 2019 | | |
|---|---|---|---|
| | Gross Carrying Amount (a) | Amortization | Intangible Asset, net |
| Customer relationships | $ 508,074 | $ (237,313) | $ 270,761 |
| Developed technology | 89,053 | (87,109) | 1,944 |
| Trade names (b) | 8,400 | (3,100) | 5,300 |
| Outsource contract costs | 16,726 | (11,749) | 4,977 |
| Internally developed software | 43,261 | (12,129) | 31,132 |
| Trademarks | 23,378 | (23,370) | 8 |
| Non-compete agreements | 1,350 | (1,350) | — |
| Assembled workforce | 4,473 | (1,118) | 3,355 |
| Purchased software | 26,749 | (1,783) | 24,966 |
| Intangibles, net | $ 721,464 | $ (379,021) | $ 342,443 |
| | December 31, 2018 (As Restated) | | |
| | Gross Carrying Amount (a) | Amortization | Intangible Asset, net |
| Customer relationships | $ 507,905 | $ (190,666) | $ 317,239 |
| Developed technology | 89,053 | (85,967) | 3,086 |
| Trade names (c) | 9,400 | (3,100) | 6,300 |
| Outsource contract costs | 15,439 | (8,817) | 6,622 |
| Internally developed software | 36,820 | (6,278) | 30,542 |
| Trademarks | 23,379 | (23,370) | 9 |
| Non-compete agreements | 1,350 | (1,350) | — |
| Assembled workforce | 4,473 | — | 4,473 |
| Purchased software | 26,749 | — | 26,749 |
| Intangibles, net | $ 714,568 | $ (319,548) | $ 395,020 |

(a) Amounts include intangibles acquired in business combinations and asset acquisitions.

(b) The carrying amount of trade names for 2019 is net of accumulated impairment losses of $44.1 million, of which $1.0 million was recognized in 2019.

(c) The carrying amount of trade names for 2018 is net of accumulated impairment losses of $43.1 million, of which $3.7 million was recognized in 2018.

During the third quarter of 2019, the Company made an evaluation based on factors such as changes in the Company's growth rate and recent trends in the Company's market capitalization, and concluded that a triggering event for an interim impairment analysis had occurred. As part of the assessment, it was determined that the increase in the discount rate applied in the valuation was required to reflect current market dynamics and company-specific risk. This higher discount rate, in conjunction with revised long-term projections, resulted in lower than previously projected long-term future cash flows for the reporting units which reduced the estimated fair value to below carrying value. As a result of the interim impairment assessment in the third quarter, the Company recorded an impairment charge to goodwill and trade names of $96.2 million (as restated) and $1.0 million, respectively. The Company did not update its analysis for

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purposes of the annual impairment test as of October 1, 2019 as the measurement date of the impairment test performed during the quarter-ended September 30, 2019 was one day from the annual impairment test date.

Additionally, later during the fourth quarter of 2019, the Company conducted its annual budgeting process along with an update to its long-range plan. Following the completion of that process, the Company made an evaluation based on factors such as changes in the Company's growth rate and recent trends in the Company's market capitalization, concluding that a second triggering event for an impairment analysis had occurred. Revised long-term projections coupled with a decline in the market capitalization, resulted in lower than previously projected long-term future cash flows for the reporting units which reduced the estimated fair value to below carrying value. Accordingly, we performed another quantitative impairment test as of December 31, 2019, resulting in an additional impairment charge of $252.4 million to goodwill. Therefore, as a result of these two interim impairment assessments in the third and fourth quarters of 2019, impairment charges totaling $348.6 million and $1.0 million were recorded to goodwill and trade names, respectively, for the year ended December 31, 2019. Accumulated impairment losses on goodwill were $560.9 million and $212.3 million as at December 31, 2019 and 2018, respectively.

In connection with the completion of the annual impairment test as of October 1, 2018, the Company recorded impairment charges of $44.4 million and $3.7 million to goodwill and trade names, respectively.

The impairment charges are included within Impairment of goodwill and other intangible assets in the consolidated statements of operations for both 2018 and 2019.

Aggregate amortization expense related to intangibles was $59.3 million, $94.9 million (as restated), and $67.1 million (as restated) for the years ended December 31, 2019, 2018, and 2017, respectively.

Estimated intangibles amortization expense for the next five years and thereafter consists of the following:

| | Estimated Amortization Expense (As Restated) |
|---|---|
| 2020 | $ 55,323 |
| 2021 | 50,015 |
| 2022 | 45,535 |
| 2023 | 37,168 |
| 2024 | 29,704 |
| Thereafter | 120,163 |
| | $ 337,908 |

**Goodwill**

Goodwill by reporting segment consists of the following:

| | Beginning of Year Balance (a) | Additions | Reductions | Currency Translation Adjustments | End of Year Balance (a) |
|---|---|---|---|---|---|
| ITPS | $ 566,215 | $ 5,580 (c) | $ — | $ (220) | $ 571,575 |
| HS | 86,786 | — | — | — | 86,786 |
| LLPS | 94,324 | — | (44,427)(b) | — | 49,897 |
| **Total - Year 2018** | $ 747,325 | $ 5,580 | $ (44,427) | $ (220) | $ 708,258 |
| ITPS | 571,575 | — | (317,525)(d) | 70 | 254,120 |
| HS | 86,786 | — | — | — | 86,786 |
| LLPS | 49,897 | — | (31,032)(e) | — | 18,865 |
| **Total - Year 2019** | $ 708,258 | $ — | $ (348,557) | $ 70 | $ 359,771 |

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(a) The carrying amount of goodwill for all periods presented is net of accumulated impairment losses of $167.9 million.

(b) The reduction in goodwill is due to $44.4 million for impairment recorded in the fourth quarter of 2018.

(c) Addition to goodwill due to the Asterion Business Combination (Refer to note 4) and other immaterial acquisitions in the third and fourth quarter of 2018.

(d) The reduction in goodwill for the ITPS segment is due to $317.5 million for impairment recorded for the year ended December 31, 2019.

(e) The reduction in goodwill for the LLPS segment is due to $31.0 million for impairment recorded for the year ended December 31, 2019.

**10. Accrued Liabilities and Other Long-Term Liabilities**

Accrued liabilities consist of the following:

| | December 31, 2019 | December 31, 2018 (As Restated) |
|---|---|---|
| Accrued taxes (exclusive of income taxes) | $ 9,608 | $ 10,606 |
| Accrued lease exit obligations | 1,127 | 1,694 |
| Accrued professional and legal fees | 33,421 | 31,220 |
| Accrued appraisal action liability | 56,412 | 40,649 |
| Accrued rent | — | 1,421 |
| Accrued transaction costs | 2,250 | 2,250 |
| Other accruals | 18,735 | 19,515 |
| | **$121,553** | **$107,355** |

Other Long-term liabilities consist of the following:

| | December 31, 2019 | December 31, 2018 (As Restated) |
|---|---|---|
| Deferred revenue | $ 339 | $ 432 |
| Accrued rent | 669 | 7,650 |
| Accrued lease exit obligations | 136 | 369 |
| Accrued compensation expense | 2,075 | 2,173 |
| Other | 3,743 | 4,093 |
| | **$ 6,962** | **$ 14,717** |

**11. Long-Term Debt and Credit Facilities**

**Senior Secured Notes**

On July 12, 2017, the Company issued $1.0 billion in aggregate principal amount of 10.0% First Priority Senior Secured Notes due 2023 (the “Notes”). The Notes are guaranteed by certain subsidiaries of the Company. The Notes bear interest at a rate of 10.0% per year. The Company pays interest on the Notes on January 15 and July 15 of each year, commencing on January 15, 2018. The Notes will mature on July 15, 2023. As of December 31, 2019, the Company was in compliance with all covenants required under the Notes.

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**Debt Refinancing**

Upon the closing of the Novitex Business Combination on July 12, 2017, the $1,050.7 million outstanding balance of SourceHOV related debt facilities and the $420.5 million outstanding balance of Novitex related debt facilities were paid off using proceeds from the Credit Agreement (as defined below) and issuance of the Notes.

In accordance with ASC 470 – Debt – Modifications and Extinguishments, as a result of certain lenders that participated in SourceHOV's debt structure prior to the refinancing and the Company's debt structure after the refinancing, it was determined that a portion of the refinancing of SourceHOV's first lien secured term loan and second lien secured term loan ("Original SourceHOV Term Loans") would be accounted for as a debt modification, and the remaining would be accounted for as an extinguishment. The Company incurred $28.9 million in debt issuance costs related to the new secured term loan, of which $2.8 million was third party costs. The Company recorded $7.0 million of original issue discount as part of the refinancing. The Company expensed $1.1 million of costs related to the modified debt and capitalized the remaining $27.8 million. The Company wrote off $30.5 million of the unamortized issuance costs and discounts associated with the retirement of SourceHOV's credit facilities. The Company retained approximately $3.3 million and $3.5 million of debt issuance costs and debt discounts, respectively, associated with the modified portion of the Original SourceHOV Term Loans that will be amortized over the term of the new term loan, which are presented on the balance sheet as a contra-debt liability. The Company incurred a $5.0 million prepayment penalty related to the Original SourceHOV Term Loans that was recorded as a loss on extinguishment of debt.

The proceeds of the new debt financing were also used to pay fees and expenses incurred in connection with the Novitex Business Combination and for general corporate purposes.

**Senior Credit Facilities**

On July 12, 2017, the Company entered into a First Lien Credit Agreement with Royal Bank of Canada, Credit Suisse AG, Cayman Islands Branch, Natixis, New York Branch and KKR Corporate Lending LLC (the "Credit Agreement") providing Exela Intermediate LLC, a wholly owned subsidiary of the Company, upon the terms and subject to the conditions set forth in the Credit Agreement, (i) a $350.0 million senior secured term loan maturing July 12, 2023 with an original issue discount ("OID") of $7.0 million, and (ii) a $100.0 million senior secured revolving facility maturing July 12, 2022. As of December 31, 2019 and 2018 the Company had outstanding irrevocable letters of credit totaling $20.6 million under the senior secured revolving facility.

The Credit Agreement provided for the following interest rates for borrowings under the senior secured term facility and senior secured revolving facility: at the Company's option, either (1) an adjusted LIBOR, subject to a 1.0% floor in the case of term loans, or (2) a base rate, in each case plus an applicable margin. The initial applicable margin for the senior secured term facility was 7.5% with respect to LIBOR borrowings and 6.5% with respect to base rate borrowings. The initial applicable margin for the senior secured revolving facility was 7.0% with respect to LIBOR borrowings and 6.0% with respect to base rate borrowings. The applicable margin for borrowings under the senior secured revolving facility is subject to step-downs based on leverage ratios. The senior secured term loan is subject to amortization payments, commencing on the last day of the first full fiscal quarter of the Company following the closing date, of 0.6% of the aggregate principal amount for each of the first eight payments and 1.3% of the aggregate principal amount for payments thereafter, with any balance due at maturity.

On May 18, 2020, the Company amended the Credit Agreement to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020. In the event the Company delivers the annual and quarterly financial statements described above within the time frames stated within such agreement (which the Company believes it has now satisfied with respect to the annual financial statements, but not with respect to quarterly financial statements), the Company will, upon delivery of such financial statements, be in compliance with the Credit Agreement, with respect to the financial statement delivery requirements set forth therein. Pursuant to the amendment, the Company also amended the Credit Agreement to, among other things: restrict the borrower and its subsidiaries' ability to designate or invest in unrestricted subsidiaries; incur certain debt; create certain liens; make certain investments; pay certain dividends or other distributions on account of its equity interests; make certain asset sales or other dispositions (or utilize the proceeds of

certain asset sales to reinvest in the business); or enter into certain affiliate transactions pursuant to the negative covenants under the Credit Agreement. Further, pursuant to the amendment, the borrower under the Credit Agreement is also required to maintain a minimum Liquidity (as defined in the amendment) of $35.0 million. As of December 31, 2019, the Company was in compliance with all covenants required under these senior credit facilities.

**Term Loan Repricing**

On July 13, 2018, Exela successfully repriced the $343.4 million of term loans outstanding under its senior secured credit facilities (the "Repricing"). The Repricing was accomplished pursuant to a First Amendment to the First Lien Credit Agreement (the "First Amendment"), dated as of July 13, 2018, by and among the Company's subsidiaries Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each "Subsidiary Loan Party" listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto, whereby the Company borrowed $343.4 million of refinancing term loans (the "Repricing Term Loans") to refinance the Company's existing senior secured term loans.

In accordance with ASC 470 – *Debt – Modifications and Extinguishments,* as a result of certain lenders that participated in Exela's debt structure prior to the Term Loan Repricing and the Company's debt structure after the refinancing, it was determined that a portion of the refinancing of Exela's senior secured credit facilities would be accounted for as a debt modification, and the remaining would be accounted for as an extinguishment. The company incurred $1.0 million in new debt issuance costs related to the refinancing, of which $1.0 million was expensed pursuant to modification accounting. The proportion of debt that was extinguished resulted in a write off of previously recognized debt issue costs of $0.1 million. Additionally, for the new lenders who exceeded the 10% test, less than $0.1 million was recorded as additional debt issue costs. All unamortized costs and discounts will be amortized over the life of the new term loan using the effective interest rate of the term loan.

The Repricing Term Loans will bear interest at a rate per annum of, at the Company's option, either (a) a LIBOR rate determined by reference to the costs of funds for Eurodollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, subject to a 1.0% floor, or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus 0.5%, (ii) the prime rate and (iii) the one-month adjusted LIBOR plus 1.0%, in each case plus an applicable margin of 6.5% for LIBOR loans and 5.5% for base rate loans. The interest rates applicable to the Repricing Term Loans are 100 basis points lower than the interest rates applicable to the existing senior secured term loans that were incurred on July 12, 2017 pursuant to the Credit Agreement. The Repricing Term Loans will mature on July 12, 2023, the same maturity date as the existing senior secured term loans.

**2018 Incremental Term Loan**

On July 13, 2018, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the "Incremental Term Loans") under the First Amendment. The proceeds of the Incremental Term Loans may be used by the Company for general corporate purposes and to pay fees and expenses in connection with the First Amendment. The interest rates applicable to the Incremental Term Loans are the same as those for the Repricing Term Loans.

The Company may voluntarily repay the Repricing Term Loans and the Incremental Term Loans (collectively, the "Term Loans") at any time, without prepayment premium or penalty, subject to customary "breakage" costs with respect to LIBOR rate loans.

Other than as described above, the terms, conditions and covenants applicable to the Repricing Term Loans and the Incremental Term Loans are consistent with the terms, conditions and covenants that were applicable to the Existing Term Loans under the First Lien Credit. The Repricing and issuance of the Incremental Term Loans resulted in a partial debt extinguishment, for which Exela recognized $1.1 million in debt extinguishment costs in the third quarter of 2018.

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**2019 Incremental Term Loan**

On April 16, 2019, the Company successfully borrowed an additional $30.0 million pursuant to incremental term loans (the "2019 Incremental Term Loans") under the Second Amendment to First Lien Credit Agreement (the "Second Amendment"). The proceeds of the 2019 Incremental Term Loans were used to replace the cash spent for acquisitions, pay related fees, expenses and related borrowings and for general corporate purposes.

The 2019 Incremental Term Loans will bear interest at a rate per annum that is the same as the Company's Repricing Term Loans under the senior credit facility. The 2019 Incremental Term Loans will mature on July 12, 2023, the same maturity date as the Term Loans. The Company may voluntarily repay the 2019 Incremental Term Loans at any time, without prepayment premium or penalty, subject to customary "breakage" costs with respect to LIBOR rate loans. Other than as described above, the terms, conditions and covenants applicable to the 2019 Incremental Term Loans are consistent with the terms, conditions and covenants that are applicable to the Repricing Term Loans and 2018 Incremental Term Loans under the Credit Agreement. The Repricing and issuance of the 2018 and 2019 Incremental Term Loans resulted in a partial debt extinguishment, for which Exela recognized $1.4 million in debt extinguishment costs in the second quarter of 2019.

**Long- Term Debt Outstanding**

As of December 31, 2019 and 2018, the following long-term debt instruments were outstanding:

| | December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Other (a) | $ 30,232 | 25,321 |
| First lien credit agreement (b) | 360,583 | 335,896 |
| Senior secured notes (c) | 979,060 | 974,443 |
| Revolver | 65,000 | — |
| Total debt | 1,434,875 | 1,335,660 |
| Less: Current portion of long-term debt | (36,490) | (29,237) |
| Long-term debt, net of current maturities | $ 1,398,385 | $ 1,306,423 |

(a) Other debt represents outstanding loan balances associated with various hardware, software purchases, maintenance and leasehold improvements along with loans entered into by subsidiaries of the Company.

(b) Net of unamortized original issue discount and debt issuance costs of $6.5 million and $18.9 million as of December 31, 2019 and $8.3 million and $24.5 million as of December 31, 2018.

(c) Net of unamortized origi

nal issue discount and debt issuance costs of $14.9 million and $6.0 million as of December 31, 2019 and $18.2 million and $7.3 million as of December 31, 2018.

As of December 31, 2019, maturities of long-term debt are as follows:

| | Maturity |
|---|---|
| 2020 | $ 36,490 |
| 2021 | 25,198 |
| 2022 | 91,187 |
| 2023 | 1,325,445 |
| 2024 | 2,921 |
| Thereafter | — |
| Total long-term debt | 1,481,241 |
| Less: Unamortized discount and debt issuance costs | (46,366) |
| | $ 1,434,875 |

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**12. Income Taxes**

The Company provides for income taxes using an asset and liability approach, under which deferred income taxes are provided for based upon enacted tax laws and rates applicable to periods in which the taxes become payable.

For financial reporting purposes, income/ (loss) before income taxes includes the following components:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 (As Restated) | 2017 (As Restated) |
| United States | $ (511,165) | $ (180,245) | $ (281,009) |
| Foreign | 9,691 | 18,792 | 10,457 |
| | $ (501,474) | $ (161,453) | $ (270,552) |

The provision for federal, state, and foreign income taxes consists of the following:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 (As Restated) | 2017 (As Restated) |
| **Federal** | | | |
| Current | $ (1,308) | $ 1,308 | $ (722) |
| Deferred | (3,879) | (2,006) | (59,425) |
| **State** | | | |
| Current | 2,255 | 390 | 1,407 |
| Deferred | (807) | 2,339 | (7,178) |
| **Foreign** | | | |
| Current | 5,770 | 3,435 | 5,794 |
| Deferred | 5,611 | 2,887 | (944) |
| **Income Tax Expense (Benefit)** | $ 7,642 | $ 8,353 | $ (61,068) |

The differences between income taxes expected by applying the U.S. federal statutory tax rate of 21% and the amount of income taxes provided for are as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 (As Restated) | 2017 (As Restated) |
| Tax at statutory rate | $ (105,310) | $ (33,905) | $ (94,693) |
| **Add (deduct)** | | | |
| State income taxes | (7,666) | (6,557) | (4,219) |
| Foreign income taxes | 4,390 | 1,228 | 305 |
| Nondeductible transaction costs | — | — | 27,311 |
| Nondeductible goodwill impairment | 61,699 | 9,002 | 10,497 |
| Permanent differences | 1,275 | 2,542 | 438 |
| Litigation settlement | 3,310 | 608 | 415 |
| Changes in valuation allowance | 30,064 | 19,433 | (6,159) |
| Unremitted earnings | 1,604 | 4,735 | — |
| Changes in U.S tax rates | — | — | (4,784) |
| Deemed mandatory repatriation | — | — | 7,441 |
| GILTI Inclusion | 3,772 | 2,289 | — |
| Expiration of tax attributes | 10,807 | 8,353 | — |
| Other | 3,697 | 625 | 2,380 |
| **Income Tax Expense (Benefit)** | $ 7,642 | $ 8,353 | $ (61,068) |

The Tax Cuts and Jobs Act ("TCJA") was signed by the President of the United States and enacted into law on December 22, 2017. This overhaul of the U.S. tax law made a number of substantial changes, including the reduction of

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the corporate tax rate from 35% to 21%, establishing a dividends received deduction for dividends paid by foreign subsidiaries to the U.S., elimination or limitation of certain deductions (interest, domestic production activities and executive compensation), imposing a mandatory tax on previously unrepatriated earnings accumulated offshore since 1986 and establishing global minimum income tax and base erosion tax provisions related to offshore activities and affiliated party payments.

The TCJA subjects a U.S. shareholder to tax on Global Intangible Low-taxed Income (“GILTI”) earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for GILTI, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. The Company has elected the accounting policy to recognize the tax expense related to GILTI in the year the tax is incurred as a period expense. At December 31 2019, the Company has included GILTI related to current-year operations in the amount of $18.0 million to compute the annual effective tax rate. At December 31, 2018, the Company had provided $2.3 million for tax impacts of GILTI.

Beginning in 2018, the TCJA also subjects a U.S. shareholder of a controlled foreign corporation to current tax on certain payments from corporations subject to U.S. tax to related foreign persons, also referred to as base erosion and anti-abuse tax ("BEAT"). The BEAT provisions in the Tax Reform Act eliminate the deduction of certain base-erosion payments made to related foreign corporations and impose a minimum tax if greater than regular tax. The Company recorded zero tax expense related to BEAT for the year ended December 31, 2019. The Company had recorded $1.3 million tax expense related to BEAT for the year ended December 31, 2018.

The components of deferred income tax liabilities and assets are as follows:

| | Year Ended December 31, | |
|---|---|---|
| | 2019 | 2018 (As Restated) |
| **Deferred income tax liabilities:** | | |
| Book over tax basis of intangible and fixed assets | $ (77,088) | $ (94,648) |
| Unremitted foreign earnings | (6,339) | (4,735) |
| Operating and finance right-of-use assets | (16,981) | — |
| Other, net | $ (2,571) | $ (4,079) |
| Total deferred income tax liabilities | (102,979) | (103,462) |
| **Deferred income tax assets:** | | |
| Allowance for doubtful accounts and receivable adjustments | $ 1,498 | $ 1,676 |
| Inventory | 903 | 1,629 |
| Accrued liabilities | 11,608 | 9,433 |
| Net operating loss and tax credit carryforwards | 158,265 | 184,430 |
| Tax deductible goodwill | 8,066 | 3,147 |
| Disallowed interest deduction | 56,873 | 26,897 |
| Operating and finance lease liabilities | 18,127 | — |
| Other, net | 15,481 | 16,031 |
| Total deferred income tax assets | $ 270,820 | $ 243,243 |
| Valuation allowance | (163,806) | (134,650) |
| **Total net deferred income tax assets (liabilities)** | **$ 4,036** | **$ 5,131** |

Gross deferred tax assets are reduced by valuation allowances to the extent the Company determines it is not more-likely-than-not that the deferred tax assets are expected to be realized. At December 31, 2019, the Company recognized $163.8 million of valuation allowances against gross deferred tax assets primarily related to net operating loss and tax credit carryforwards. Of this amount, approximately $65.4 million and $5.8 million of the total valuation allowance relates to U.S. federal and state limitations on the utilization of net operating loss carryforwards due to numerous changes in ownership. Approximately $48.9 million and $7.2 million of the total valuation allowance relates

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to U.S. federal and state disallowed interest deductions pursuant to the TCJA. The remaining $37.6 million of the valuation allowance relates to non-limited U.S. and non-U.S. net operating losses, capital losses, and tax credits that are not expected to be realizable.

The net change during the year in the total valuation allowance was an increase of $29.2 million primarily related to the increase of net regular deferred tax assets and the increase of deferred tax assets related to disallowed interest deduction.

Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), limits the amount of U.S. tax attributes (net operating losses and tax credit carryforwards) following a change in ownership. The Company has determined that for the purpose of these provisions an ownership change occurred under Section 382 on April 3, 2014 and October 31, 2014 for BancTec, Inc. and its subsidiaries and RC4Capital, LLC and its subsidiaries (collectively, the “Pangea Group”) and on October 31, 2014 for the historic SourceHOV group (the "2014 Reorganization"). The Section 382 limitations significantly limit the pre-acquisition Pangea Group net operating losses. Accordingly, upon the October 31, 2014 change in control, most of the historic Pangea Group federal net operating losses were limited and a valuation allowance has been established against the related deferred tax assets. Following the filing of the October 31, 2014, Pangea Group federal tax returns and further Section 382 analysis, management finalized the amount of the limitation and as a result, approximately $3.5 million of the valuation allowance was released. Management has concluded that the U.S. tax attributes after Section 382 limitations were applied are more likely than not to be realized. With regard to Pangea Group's foreign subsidiaries, it was determined that most deferred tax assets are not likely to be realized and valuation allowances have been established. The Section 382 limit that applied to the historic SourceHOV group is greater than the net operating losses and tax credits generated in the predecessor periods. Therefore, no additional valuation allowances were established relating to Section 382 limitations other than the pre-2011 Section 382 limitations that applied.

Included in deferred tax assets are federal, foreign and state net operating loss carryforwards, federal capital loss carryforwards, federal general business credit carryforwards and state tax credit carryforwards due to expire beginning in 2020 through 2039. As of December 31, 2019, the Company has federal and state income tax net operating loss (NOL) carryforwards of $573.8 million and $421.5 million, which will expire at various dates from 2020 through 2039. Such NOL carryforwards expire as follows:

| | Federal NOL | State and Local NOL |
|---|---|---|
| 2020 – 2024 | $ 86,371 | $ 60,478 |
| 2025 – 2029 | 134,448 | 94,661 |
| 2030 – 2039 | 352,972 | 266,348 |
| | $ 573,791 | $ 421,487 |

As of December 31, 2019, the Company has foreign net operating loss carryforwards of $37.3 million, $1.2 million of which were generated by Exela Poland, and will expire in 2024, and the rest of which can be carried forward indefinitely.

Since the 2014 Reorganization did not result in a new tax basis of assets and liabilities for the Company, some of the goodwill continues to be deductible over the remaining amortization period for tax purposes. At December 31, 2019, approximately $41.4 million of the Company goodwill is tax deductible, $20.9 million of which is carried over from the 2014 Reorganization. Additionally, the Company has tax deductible goodwill of $17.0 million in connection with the TransCentra acquisition, and $3.5 million in connection with the Novitex acquisition. These amounts were related to the tax basis carried over from the seller in those acquisitions.

The Company adopted the provision of accounting for uncertainty in income taxes in ASC Topic 740. ASC 740 clarifies the accounting for uncertain tax positions in the Company's financial statements and prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on tax returns. The total amount of unrecognized tax benefits at December 31, 2019 is $6.4 million, and if recognized $2.8 million would benefit the effective tax rate. Total accrued interest and penalties recorded on the Consolidated Balance

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Sheet were $2.1 million and $2.3 million at December 31, 2019 and 2018, respectively. The total amount of interest and penalties recognized in the Consolidated Statement of Operations at December 31, 2019 was $(0.2) million. The Company does not anticipate a significant change in the amount of unrecognized tax benefits during 2018.
The following is a tabular reconciliation of the total amounts of unrecognized tax benefits:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 (As Restated) | 2017 (As Restated) |
| **Unrecognized tax benefits—January 1** | $ 1,476 | $ 1,047 | $ 999 |
| Gross increases—tax positions in prior period | 1,378 | 301 | 48 |
| Gross decreases—tax positions in prior period | (10) | — | — |
| Gross increases—tax positions in current period | 1,470 | 128 | — |
| Settlement | — | — | — |
| Lapse of statute of limitations | — | — | — |
| **Unrecognized tax benefits—December 31** | $ 4,314 | $ 1,476 | $ 1,047 |

The Company files income tax returns in the U.S. and various state and foreign jurisdictions. The statute of limitations for U.S. purposes is open for tax years ending on or after December 31, 2015, However, NOLs generated in years prior to 2015 and utilized in future periods may be subject to examination by U.S. tax authorities. State jurisdictions that remain subject to examination are not considered significant. The Company has significant foreign operations in India and EMEA. The Company may be subject to examination by the India tax authorities for tax periods ending on or after March 31, 2013.

At December 31, 2019, the Company has not changed its prior indefinite reinvestment assertion on undistributed earnings related to certain foreign subsidiaries. Accordingly, no deferred taxes have been provided for withholding taxes or other taxes that would result upon repatriation of approximately $105.2 million of undistributed earnings from these foreign subsidiaries as those earnings continue to be permanently reinvested. However, the Company does not indefinitely reinvest earnings in Canada, China, India, Mexico and Philippines. At December 31, 2019, the Company recorded $6.3 million of foreign withholding taxes on the undistributed earnings of these jurisdictions, $1.6 million of which was recorded in the Consolidated Statements of Operations at December 31, 2019 and $4.7 million was recorded at December 31, 2018.

## 13. Employee Benefit Plans

### German Pension Plan

The Company's subsidiary in Germany provides pension benefits to eligible retirees. Employees eligible for participation includes all employees who started working for the Company prior to September 30, 1987 and have finished a qualifying period of at least 10 years. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan. The German pension plan is an unfunded plan and therefore has no plan assets.

### U.K. Pension Plan

The Company's subsidiary in the United Kingdom provides pension benefits to eligible retirees and eligible dependents. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to October 2001. A retirement pension or a lump-sum payment may be paid dependent upon length of service at the mandatory retirement age. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

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The expected rate of return assumptions for plan assets relate solely to the UK plan and are based mainly on historical performance achieved over a long period of time (15 to 20 years) encompassing many business and economic cycles. The Company assumed a weighted average expected long-term rate on plan assets of 3.87%.

**Norway Pension Plan**

The Company's subsidiary in Norway provides pension benefits to eligible retirees and eligible dependents. Employees eligible for participation include all employees who were more than three years from retirement prior to March 2018. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan. The expected rate of return assumptions for plan assets relate solely to the Norway plan and are based mainly on historical performance achieved over a long period of time (10 to 20 years) encompassing many business and economic cycles. The Company assumed a weighted average expected long-term rate on plan assets of 3.8%.

**Asterion Pension Plan**

The Company acquired in 2018 through the Asterion Business Combination the obligation to provide pension benefits to eligible retirees and eligible dependents. Employees eligible for participation included all full-time regular employees who were more than three years from retirement prior to July 2003. A retirement pension or a lump-sum payment may be paid dependent upon length of service at the mandatory retirement age. The Company accrues the cost of these benefits over the service lives of the covered employees based on an actuarial calculation. The Company uses a December 31 measurement date for this plan.

With respect to all of the plans as discussed, no new employees are registered under these plans and the employees who are already eligible to receive benefits under these plans are no longer employed by the Company.

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**Funded Status**

The change in benefit obligations, the change in the fair value of the plan assets and the funded status of the Company's pension plans (except for the German pension plan which is unfunded) and the amounts recognized in the Company's consolidated financial statements are as follows:

| | Year ended December, | |
|---|---|---|
| | 2019 | 2018 |
| Change in Benefit Obligation: | | |
| Benefit obligation at beginning of period | $ 90,051 | $ 91,875 |
| Additional obligation due to acquisition | — | 5,631 |
| Service cost | 80 | 82 |
| Interest cost | 2,448 | 2,350 |
| Actuarial loss (gain) | 9,168 | (4,356) |
| Plan amendments | (835) | 1,334 |
| Benefits paid | (3,082) | (1,558) |
| Foreign-exchange rate changes | 3,131 | (5,307) |
| Benefit obligation at end of year | $ 100,961 | $ 90,051 |
| Change in Plan Assets: | | |
| Fair value of plan assets at beginning of period | $ 62,952 | $ 64,886 |
| Additional assets due to acquisition | — | 2,184 |
| Actual return on plan assets | 10,906 | (1,432) |
| Employer contributions | 2,557 | 2,477 |
| Benefits paid | (2,995) | (1,421) |
| Foreign-exchange rate changes | 2,455 | (3,742) |
| Fair value of plan assets at end of year | 75,875 | 62,952 |
| Funded status at end of year | $ (25,086) | $ (27,099) |
| Net amount recognized in the Consolidated Balance Sheets: | | |
| Pension liability (a) | $ (25,681) | $ (27,641) |
| Amounts recognized in accumulated other comprehensive loss, net of tax consist of: | | |
| Net actuarial loss | (8,059) | (9,301) |
| Net amount recognized in accumulated other comprehensive loss, net of tax | $ (8,059) | $ (9,301) |
| Plans with underfunded or non-funded accumulated benefit obligation: | | |
| Aggregate projected benefit obligation | $ 100,961 | $ 90,050 |
| Aggregate accumulated benefit obligation | $ 100,961 | $ 90,050 |
| Aggregate fair value of plan assets | $ 75,875 | $ 62,883 |

(a) Consolidated balance of $25.7 million for the year ended December 31, 2019 includes pension liabilities of $20.6 million, $2.4 million, $2.1 million and $0.1 million under U.K., Asterion, German and Norway pension plans, respectively, and minimum regulatory benefit for a Philippines legal entity of $0.5 million. Consolidated balance of $27.6 million for the year ended December 31, 2018 includes pension liabilities of $22.0 million, $2.8 million, $1.8 million and $0.5 million under U.K., Asterion, German and Norway pension plans, respectively, and minimum regulatory benefit for a Philippines legal entity of $0.5 million.

**Amounts in Accumulated Other Comprehensive Loss Expected to be Recognized in Net Periodic Benefit Costs in 2020**

The liability recorded on the Company's consolidated balance sheets representing the net unfunded status of this plan is different than the cumulative expense recognized for this plan. The difference relates to losses that are deferred and that will be amortized into periodic benefit costs in future periods. These unamortized amounts are recorded in Accumulated Other Comprehensive Loss in the consolidated balance sheets.

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As of December 31, 2019, the estimated pre-tax amount that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year will be net actuarial loss of $1.8 million and prior service cost of $0.1 million.

**Tax Effect on Accumulated Other Comprehensive Loss**

As of December 31, 2019 and 2018, the Company recorded actuarial losses of $8.1 million and $9.3 million, respectively, which is net of a deferred tax benefit of $2.0 million and $1.7 million, respectively.

**Pension and Postretirement Expense**

The components of the net periodic benefit cost are as follows:

| | Year ended December 31, 2019 | 2018 | 2017 |
|---|---|---|---|
| Service cost | $ 80 | $ 82 | $ 8 |
| Interest cost | 2,448 | 2,350 | 2,288 |
| Expected return on plan assets | (2,460) | (2,841) | (2,392) |
| Amortization: | | | |
| Amortization of prior service cost | (169) | 9 | (134) |
| Amortization of net (gain) loss | 1,768 | 1,755 | 2,063 |
| Net periodic benefit cost | $ 1,667 | $ 1,355 | $ 1,833 |

**Valuation**

The Company uses the corridor approach and projected unit credit method in the valuation of its defined benefit plans for the UK, Germany, and Norway respectively. The corridor approach defers all actuarial gains and losses resulting from variances between actual results and economic estimates or actuarial assumptions. For defined benefit pension plans, these unrecognized gains and losses are amortized when the net gains and losses exceed 10% of the greater of the market-related value of plan assets or the projected benefit obligation at the beginning of the year. The amount in excess of the corridor is amortized over 15 years. Similarly, the Company used the Projected Unit Credit Method for the German Plan, and evaluated the assumptions used to derive the related benefit obligations consisting primarily of financial and demographic assumptions including commencement of employment, biometric decrement tables, retirement age, staff turnover. The projected unit credit method determines the present value of the Company's defined benefit obligations and related service costs by taking into account each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately in building up the final obligation. Benefit is attributed to periods of service using the plan's benefit formula, unless an employee's service in later years will lead to a materially higher of benefit than in earlier years, in which case a straight-line basis is used.

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The following tables set forth the principal actuarial assumptions used to determine benefit obligation and net periodic benefit costs:

| | December 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | UK | | Germany | | Norway | | Asterion | |
| Weighted-average assumptions used to determine benefit obligations: | | | | | | | | |
| Discount rate | 2.10 % | 2.80 % | 1.00 % | 1.90 % | 2.30 % | 2.60 % | 1.10 % | 1.80 |
| Rate of compensation increase | N/A | N/A | N/A | N/A | 2.25 % | 2.75 % | 2.50 % | 2.50 |
| Weighted-average assumptions used to determine net periodic benefit cost: | | | | | | | | |
| Discount rate | 2.80 % | 2.50 % | 1.00 % | 1.90 % | 2.30 % | 2.60 % | 1.10 % | 1.80 |
| Expected asset return | 3.87 % | 4.25 % | N/A % | N/A % | 3.80 % | 4.30 % | 1.10 % | 1.80 |
| Rate of compensation increase | N/A | N/A | N/A | N/A | 2.25 % | 1.75 % | 2.50 % | 2.50 |

The Germany plan is an unfunded plan and therefore has no plan assets. The expected rate of return assumptions for plan assets are based mainly on historical performance achieved over a long period of time (10 to 20 years) encompassing many business and economic cycles. Adjustments, upward and downward, may be made to those historical returns to reflect future capital market expectations; these expectations are typically derived from expert advice from the investment community and surveys of peer company assumptions.

The Company assumed a weighted average expected long-term rate of return on plan assets for the overall scheme of 3.86%. The Company's long-term expected rate of return on cash is determined by reference to UK government 10 year bond yields at the balance sheet dates. The long-term expected return on bonds is determined by reference to corporate bond yields at the balance sheet date. The long-term expected rate of return on equities and diversified growth funds is based on the rate of return on UK long dated government bonds with an allowance for out-performance. The long-term expected rate of return on the liability driven investments holdings is determined by reference to UK government 20 year bond yields at the balance sheet date.

The discount rate assumption was developed considering the current yield on an investment grade non-gilt index with an adjustment to the yield to match the average duration of the index with the average duration of the plan's liabilities. The index utilized reflected the market's yield requirements for these types of investments.

The inflation rate assumption was developed considering the difference in yields between a long-term government stocks index and a long-term index-linked stocks index. This difference was modified to consider the depression of the yield on index-linked stocks due to the shortage of supply and high demand, the premium for inflation above the expectation built into the yield on fixed-interest stocks and the government's target rate for inflation (CPI) at 1.8%. The assumptions used are the best estimates chosen from a range of possible actuarial assumptions which, due to the time scale covered, may not necessarily be borne out in practice.

**Plan Assets**

The investment objective for the plan is to earn, over moving fifteen to twenty year periods, the long-term expected rate of return, net of investment fees and transaction costs, to satisfy the benefit obligations of the plan, while at the same time maintaining sufficient liquidity to pay benefit obligations and proper expenses, and meet any other cash needs, in the short-to medium-term.

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The Company's investment policy related to the defined benefit plan is to continue to maintain investments in government gilts and highly rated bonds as a means to reduce the overall risk of assets held in the fund. No specific targeted allocation percentages have been set by category, but are set at the direction and discretion of the plan trustees. The weighted average allocation of plan assets by asset category is as follows:

| | December 31, | | |
|---|---|---|---|
| | 2019 | 2018 (As Restated) | 2017 (As Restated) |
| U.K. and other international equities | 29.9 % | 27.1 % | 45.0 % |
| U.K. government and corporate bonds | 12.5 | 12.7 | 20.0 |
| Diversified growth fund | 41.3 | 38.9 | 35.0 |
| Liability driven investments | 16.3 | 21.3 | N/A |
| Total | 100.0 % | 100.0 % | 100.0 % |

The following tables set forth, by category and within the fair value hierarchy, the fair value of the Company's pension assets at December 31, 2019 and 2018:

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Asset Category: | | | | |
| Cash | $ 837 | $ 837 | $ — | $ — |
| Equity funds: | | | | |
| U.K. | 13,121 | — | 13,121 | — |
| Other international | 8,747 | — | 8,747 | — |
| Fixed income securities: | | | | |
| Corporate bonds / U.K. Gilts | 9,446 | — | 9,446 | — |
| Other investments: | | | | |
| Diversified growth fund | 31,345 | — | 31,345 | — |
| Liability driven investments | 12,379 | — | 12,379 | — |
| Total fair value | $ 75,875 | $ 837 | $ 75,038 | $ — |

| | December 31, 2018 (As Restated) | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Asset Category: | | | | |
| Cash | $ 129 | $ 129 | $ — | $ — |
| Equity funds: | | | | |
| U.K. | 10,161 | — | 10,161 | — |
| Other international | 6,773 | — | 6,773 | — |
| Fixed income securities: | | | | |
| Corporate bonds / UK Gilts | 7,987 | — | 7,987 | — |
| Other investments: | | | | |
| Diversified growth fund | 24,488 | — | 24,488 | — |
| Liability driven investments | 13,414 | — | 13,414 | — |
| Total fair value | $ 62,952 | $ 129 | $ 62,823 | $ — |

The Company identified an immaterial error in the footnotes to the previously issued financial statements as of December 31, 2018. In the previously issued financial statements the investments in Equities, Fixed Income Securities, and Other investments denominated in British Pounds relating to U.K. Plan as of December 31, 2018, were converted from British Pounds to United States Dollars using incorrect exchange rates. These amounts have been recomputed using appropriate exchange rate and correctly disclosed within the fair value hierarchy table above. As a result of this correction, the weighted average allocation of plan assets by asset category for the year ended December 31, 2018 is also restated.

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The plan assets are categorized as follows, as applicable:

Level 1: Any asset for which a unit price is available and used without adjustment, cash balances, etc.

Level 2: Any asset for which the amount disclosed is based on market data, for example a fair value measurement based on a present value technique (where all calculation inputs are based on data).

Level 3: Other assets. For example, any asset value with a fair value adjustment made not based on available indices or data.

**Employer Contributions**

The Company's funding is based on governmental requirements and differs from those methods used to recognize pension expense. The Company made contributions of $2.6 million and $2.5 million to its pension plans during the years ended December 31, 2019 and 2018 (as restated), respectively. The Company has fully funded the pension plans for 2019 based on current plan provisions. The Company expects to contribute $2.7 million to the pension plans during 2020, based on current plan provisions.

**Estimated Future Benefit Payments**

The estimated future pension benefit payments expected to be paid to plan participants are as follows:

| | Estimated Benefit Payments |
|---|---|
| **Year ended December 31,** | |
| 2020 | $ 1,730 |
| 2021 | 1,741 |
| 2022 | 2,070 |
| 2023 | 1,997 |
| 2024 | 2,854 |
| 2025 - 2029 | 16,417 |
| Total | $ 26,809 |

**14. Commitments and Contingencies**

**Litigation**

The Company is, from time to time, involved in certain legal proceedings, inquiries, claims and disputes, which arise in the ordinary course of business. Although management cannot predict the outcomes of these matters, management does not believe these actions will have a material, adverse effect on the Company's consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

**Appraisal Demand**

On September 21, 2017, former stockholders of SourceHOV, who owned 10,304 shares of SourceHOV common stock, filed a petition for appraisal pursuant to 8 Del. C. § 262 in the Delaware Court of Chancery, captioned Manichaean Capital, LLC, et al. v. SourceHOV Holdings, Inc., C.A. No. 2017 0673 JRS (the "Appraisal Action"). The Appraisal Action arose out of the Novitex Business Combination, and the petitioners sought, among other things, a determination of the fair value of their shares at the time of the Novitex Business Combination; an order that SourceHOV pay that value to the petitioners, together with interest at the statutory rate; and an award of costs, attorneys' fees, and other expenses. During the trial the parties and their experts offered competing valuations of the SourceHOV shares as of the date of the Novitex Business Combination. SourceHOV argued the value was no more than $1,633.85 per share and the petitioners argued the value was at least $5,079.28 per share. On January 30, 2020, the Court issued its

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post-trial Memorandum Opinion in the Appraisal Action, in which it found that the fair value of SourceHOV as of the date of the Novitex Business Combination was $4,591 per share, and on March 26, 2020, the Court issued its final order and judgment awarding the petitioners $57,698,426 inclusive of costs and interest.

On May 7, 2020, SourceHOV filed a motion for new trial in relation to share count. Following the Court's decision on the motion for new trial, SourceHOV has the right to appeal the judgment. At this time, we cannot determine whether such motion or an appeal would be successful. Per the Court's opinion, the legal rate of interest, compounded quarterly, accrues on the per share value from the Closing Date until the date of payment to petitioners.

As a result of the Appraisal Action, 4,570,734 shares of our Common Stock issued to Ex-Sigma 2 have been returned to the Company during the first quarter of 2020.

As of December 31, 2019, the Company accrued a liability of $56.4 million for the Appraisal Action based on management's best estimate of total payment obligation including accrued interest.

**Contract-Related Contingencies**

The Company has certain contingent obligations that arise in the ordinary course of providing services to its customers. These contingencies are generally the result of contracts that require the Company to comply with certain performance measurements or the delivery of certain services to customers by a specified deadline. The Company believes the adjustments to the transaction price, if any, under these contract provisions will not result in a significant revenue reversal or have a material adverse effect on the Company's consolidated balance sheets, consolidated statements of operations or consolidated statements of cash flows.

The Company has recorded a liability for contingent consideration related to a prior acquisition. The Company adjusts this liability to fair value at each reporting period.

On February 20, 2014, the Company's subsidiary, Pangea Acquisitions, Inc. ("Pangea") acquired BancTec, Inc. ("BancTec") through a merger of BancTec and a Pangea subsidiary. The merger agreement for that transaction provided that contingent, or "earnout," consideration would be paid to former BancTec shareholders in the event Pangea's controlling shareholder realizes certain returns on its post-merger Pangea stock. A liability of $0.7 million was recognized for the fair value of the contingent consideration on the acquisition date. The liability for the contingent consideration is adjusted to fair value at each reporting date. (Refer to Note 15 – Fair Value Measurements). The liability for the fair value of the contingent consideration was $0.7 million as of December 31, 2019 and 2018.

On April 13, 2018, Western Standard, LLC, in its capacity as representative of the former BancTec shareholders filed suit in the Delaware Court of Chancery alleging that the above described earnout was triggered by the Novitex Business Combination and seeks payment of approximately $8.1 million in respect of the earnout. While the Company moved to dismiss the complaint because the earnout was moot or had not been triggered, on July 24, 2019, the Company was denied its motion to dismiss. The case is scheduled for trial September 1-3, 2020 in Wilmington, Delaware, and discovery is ongoing.

**15. Fair Value Measurement**

**Assets and Liabilities Measured at Fair Value**

The carrying amount of assets and liabilities including cash and cash equivalents, accounts receivable and accounts payable approximated their fair value as of December 31, 2019, and December 31, 2018, due to the relative short maturity of these instruments. Management estimates the fair values of the secured term loan and secured notes at approximately 42.5% and 41.0% respectively, of the respective principal balance outstanding as of December 31, 2019. The fair value is substantially less than the carrying value for the long-term debt. Other debt represents the Company's outstanding loan balances associated with various hardware and software purchases along with loans entered into by subsidiaries of the Company and as such, the cost incurred would approximate fair value. Property and equipment, intangible assets, capital lease obligations, and goodwill are not required to be re-measured to fair value on a recurring

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basis. These assets are evaluated for impairment if certain triggering events occur. If such evaluation indicates that impairment exists, the respective asset is written down to its fair value.

The Company determined the fair value of its long-term debt using Level 2 inputs including the recent issue of the debt, the Company's credit rating, and the current risk-free rate. The Company's contingent liabilities related to prior acquisitions are re-measured each period and represent a Level 2 measurement as it is based on using an earn out method based on the agreement terms.

The Company determined the fair value of the interest rate swap using Level 2 inputs. The Company uses closing prices as provided by a third party institution. *(Refer to Note 2 - Basis of Presentation and Summary of Significant Accounting Policies).*

The following table provides the carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2019 and December 31, 2018:

| As of December 31, 2019 | Carrying Amount | Fair Value | Fair Value Measurements Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **Recurring assets and liabilities:** | | | | | |
| Long-term debt | $ 1,398,385 | $ 632,796 | $ — | $ 632,796 | $ — |
| Interest rate swap liability | 501 | 501 | — | 501 | — |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |
| **Nonrecurring assets and liabilities:** | | | | | |
| Goodwill | 359,771 | 359,771 | — | — | 359,771 |

| As of December 31, 2018 (As Restated) | Carrying Amount | Fair Value | Fair Value Measurements Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| **Recurring assets and liabilities:** | | | | | |
| Long-term debt | $ 1,306,423 | $ 1,316,306 | $ — | $ 1,316,306 | $ — |
| Interest rate swap asset (1) | 3,836 | 3,836 | — | 3,836 | — |
| Acquisition contingent liability | $ 721 | $ 721 | $ — | $ — | $ 721 |
| **Nonrecurring assets and liabilities:** | | | | | |
| Goodwill | 708,258 | 708,258 | — | — | 708,258 |

(1) Due to an error in presentation of this table in the financial statement for the year ended December 31, 2018, the carrying amount and fair value of the interest rate swap was disclosed as zero. The table has been restated to include the carrying amount and fair value of the interest rate swap asset as at December 31, 2018.

The significant unobservable inputs used in the fair value of the Company's acquisition contingent liabilities are the discount rate, growth assumptions, and revenue thresholds. Significant increases (decreases) in the discount rate would have resulted in a lower (higher) fair value measurement. Significant increases (decreases) in the forecasted financial information would have resulted in a higher (lower) fair value measurement. For all significant unobservable inputs used in the fair value measurement of the Level 3 liabilities, a change in one of the inputs would not necessarily result in a directionally similar change in the other based on the current level of billings.

The following table reconciles the beginning and ending balances of net assets and liabilities classified as Level 3 for which a reconciliation is required:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Balance as of January 1, | $ 721 | $ 721 |
| Payments/Reductions | — | — |
| Balance as of December 31, | $ 721 | $ 721 |

During 2019 and 2018, goodwill impairment charges totaling $348.6 million and $44.4 million were recognized. See Note 9.

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**16. Stock-Based Compensation**

At Closing, SourceHOV had 24,535 restricted stock units ("RSUs") outstanding under its 2013 Long Term Incentive Plan ("2013 Plan"). Simultaneous with the Closing, the 2013 Plan, as well as all vested and unvested RSUs under the 2013 Plan, were assumed by Ex-Sigma (the sole equityholder of Ex-Sigma 2), an entity formed by the former SourceHOV equity holders. In accordance with U.S. GAAP, the Company incurred compensation expenses related to the 9,880 unvested RSUs as of July 12, 2017 on a straight-line basis until fully vested, as the recipients of the RSUs were employees of the Company. All unvested RSUs under the 2013 Plan were vested by April 2019. As of December 31, 2019, there were no outstanding obligations under the 2013 Plan.

**Exela 2018 Stock Incentive Plan**

On December 20, 2017, Exela's 2018 Stock Incentive Plan (the "2018 Plan") became effective. The 2018 Plan provides for the grant of incentive and nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights, performance awards, and other stock-based compensation to eligible participants. The Company is authorized to issue up to 8,323,764 shares of Common Stock under the 2018 Plan.

**Restricted Stock Unit Grants**

Restricted stock unit awards generally vest ratably over a one to two year period. Restricted stock units are subject to forfeiture if employment terminates prior to vesting and are expensed ratably over the vesting period.

A summary of the status of restricted stock units related to the 2018 Plan as of December 31, 2019 is presented as follows:

| | Number of Shares | Weighted Average Grant Date Fair Value | Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Balance as of December 31, 2018 | 893,297 | $ 5.86 | 0.76 | $ 5,239 |
| Granted | 462,617 | 2.49 | | |
| Forfeited | (242,116) | 5.41 | | |
| Vested | (804,493) | 5.88 | | |
| Balance as of December 31, 2019 | 309,305 | $ 1.99 | 1.19 | $ 616 |

The majority of the RSUs that vested in the third quarter of 2019 were net-share settled such that the Company withheld shares with value equivalent to the employee's minimum statutory obligation for applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld were 194,010 shares and were based on the value of the RSUs on their respective vesting dates as determined by the Company's closing stock price. Total payment for the employee's tax obligations to taxing authorities were $0.2 million and is reflected as a financing activity within the Consolidated Statements of Cash flows.

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**Options**

Under the 2018 Plan, stock options are granted at a price per share not less than 100% of the fair market value per share of the underlying stock at the grant date. The vesting period for each option award is established on the grant date, and the options generally expire 10 years from the grant date. Options granted under the 2018 Plan generally require no less than a two or four year ratable vesting period. Stock option activity for the year 2019 is summarized in the following table:

| | Outstanding | Weighted Average Grant Date Fair Value | Weighted Average Exercise Price | Average Remaining Vesting Period (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|---|
| Outstanding Balance as of December 31, 2018 | 3,570,300 | $ 2.69 | $ 6.06 | 2.92 | $ 9,590 |
| Granted | 2,050,600 | 0.94 | | | |
| Exercised | — | — | | | |
| Forfeited | (683,200) | 2.64 | | | |
| Expired | — | — | | | |
| Outstanding Balance as of December 31, 2019 | 4,937,700 | $ 1.97 | $ 4.14 | 2.27 | $ 9,719 |

(1) None of the outstanding options are exercisable as of December 31, 2019.

As of December 31, 2019, there was approximately $6.2 million of total unrecognized compensation expense related to non-vested awards for the 2018 Plan, which will be recognized over the respective service period. Stock-based compensation expense is recorded within Selling, general, and administrative expenses. The Company incurred total compensation expense of $7.8 million, $7.6 million, and $6.7 million related to the 2013 Plan and 2018 Plan awards for the years ended December 31, 2019, 2018, and 2017.

**17. Stockholders' Equity**

The following description summarizes the material terms and provisions of the securities that the Company has authorized.

*Common Stock*

The Company is authorized to issue 1,600,000,000 shares of Common Stock, par value $0.0001 per share. Except as otherwise required by law or as otherwise provided in any certificate of designation for any series of preferred stock or as provided for in the Director Nomination Agreements, the holders of our Common Stock possess all voting power for the election of our board of directors and all other matters requiring stockholder action and will at all times vote together as one class on all matters submitted to a vote of Exela stockholders. Holders of our Common Stock are entitled to one vote per share on matters to be voted on by stockholders. Holders of our Common Stock will be entitled to receive such dividends and other distributions, if any, as may be declared from time to time by the board of directors in its discretion out of funds legally available therefor and shall share equally on a per share basis in such dividends and distributions. The holders of the Common Stock have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the common stock. In the year 2019, 275,000 shares of Series A Preferred Stock were converted into 336,214 shares of Common Stock. As of December 31, 2019 and December 31, 2018, there were 153,638,836 and 152,692,140 shares of Common Stock issued, respectively. As of December 31, 2019 and December 31, 2018, there were 150,851,689 and 150,142,955 shares outstanding, respectively (inclusive in each case of the 4,570,734 shares returned to the Company in the first quarter of 2020 in connection with the Appraisal Action).

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*Preferred Stock*

The Company is authorized to issue 20,000,000 shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the board of directors. At December 31, 2019 and December 31, 2018, the Company had 4,294,233 shares and 4,569,233 shares of Series A Preferred Stock outstanding, respectively. The par value of the Series A Preferred Stock is $0.0001 per share. Each share of Series A Preferred Stock will be convertible at the holder's option, at any time after the six month anniversary and prior to the third anniversary of the issue date, initially into 1.2226 shares of Exela Common Stock (assuming a conversion price of $8.80 per share and a third anniversary expected liquidation preference of $10.75911 per the below). Due to a Fundamental Change (as defined in the Certificate of Designations, Preferences, Rights and Limitations of Series A Preferred Stock) that occurred on August 1, 2017 as described in the beneficial conversion feature section of Note 2, holders of Series A Preferred Stock were able to convert their shares prior to the six month anniversary. Based on such assumed conversion rate, approximately 11,240,869 shares of Exela Common Stock would be issuable upon conversion of all of the shares of Series A Preferred Stock at the six month anniversary of the issue date. As of December 31, 2019, 5,250,129 shares of Common Stock are issuable upon conversion of the remaining 4,294,233 shares of Series A Preferred Stock.

Holders of the Series A Preferred Stock will be entitled to receive cumulative dividends at a rate per annum of 10% of the Liquidation Preference per share of Series A Preferred Stock, paid or accrued quarterly in arrears. From the issue date until the third anniversary of the issue date, the amount of all accrued but unpaid dividends on the Series A Preferred Stock will be added to the Liquidation Preference without any action by the Company’s board of directors. For the year ended December 31, 2019, this amount was $3.3 million as reflected on the Consolidated Statement of Operations. The cumulative accrued but unpaid dividends of the Series A Preferred Stock since their inception on July 12, 2017 is $9.4 million. The per share average of cumulative preferred dividends is $2.2.

Following the third anniversary of the issue date, dividends on the Series A Preferred Stock will be accrued by adding to the Liquidation Preference or paid in cash, or a combination thereof. In addition, holders of the Series A Preferred Stock will participate in any dividend or distribution of cash or other property paid in respect of the Common Stock pro rata with the holders of the Common Stock (other than certain dividends or distributions that trigger an adjustment to the conversion rate, as described in the Certificate of Designations), as if all shares of Series A Preferred Stock had been converted into Common Stock immediately prior to the date on which such holders of the Common Stock became entitled to such dividend or distribution.

*Treasury Stock*

On November 8, 2017, the Company’s board of directors authorized a share buyback program (the “Share Buyback Program”), pursuant to which the Company was entitled to purchase up to 5,000,000 shares of its Common Stock. The Share Buyback Program has expired. The Company purchased 237,962 shares in 2019 at an average share price of $2.51 under the Share Buyback Program. As of December 31, 2019, 2,787,147 shares had been repurchased under the Share Buyback Program and they are held in treasury stock. The Company records treasury stock using the cost method.

*Warrants*

At December 31, 2019, there were a total of 34,988,302 warrants outstanding. As part of its IPO, Quinpario had issued 35,000,000 units including one share of Common Stock and one warrant of which 34,988,302 have been separated from the original unit and 11,698 warrants remain an unseparated part of the originally issued units which are included in the number of shares of common stock outstanding referred to above. The warrants are traded on the OTC Bulletin board as of December 31, 2019.

Each warrant entitles the holder to purchase one-half of one share of Common Stock at a price of $5.75 per half share ($11.50 per whole share). Warrants may be exercised only for a whole number of shares of Common Stock. No fractional shares will be issued upon exercise of the warrants. Each warrant is currently exercisable and will expire July 12, 2022 (five years after the completion of the Novitex Business Combination), or earlier upon redemption.

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The Company may call the warrants for redemption at a price of $0.01 per warrant upon a minimum of 30 days' prior written notice of redemption, if, and only if, the last sales price of the shares of Common Stock equals or exceeds $24.00 per share for any 20 trading days within a 30 trading day period (the "30-day trading period") ending three business days before the Company sends the notice of redemption, and if, and only if, there is a current registration statement in effect with respect to the shares of Common Stock underlying such warrants commencing five business days prior to the 30-day trading period and continuing each day thereafter until the date of redemption.

**18. Related-Party Transactions**

*Operating Facility Leases*

Certain operating companies lease their operating facilities from HOV RE, LLC and HOV Services Limited, which are affiliates under common control with Ex-Sigma 2. The rental expense for these operating leases was $0.4 million, $0.7 million, and $0.7 million for the years ended December 31, 2019, 2018, and 2017, respectively.

*Consulting Agreements*

The Company receives services from Oakana Holdings, Inc. The Company and Oakana Holdings, Inc. are related through a family relationship between certain shareholders and the president of Oakana Holdings, Inc. The expense recognized for these services was approximately $0.2 million, $0.2 million and $0.1 million for the years ended December 31, 2019, 2018 and 2017, respectively.

The Company received consulting services from Shadow Pond, LLC. Shadow Pond, LLC is wholly-owned and controlled by Vik Negi, the Company's Executive Vice President Treasury and Business Affairs. The consulting arrangement was established to compensate Mr. Negi for his services to the Company prior to becoming an employee. The consulting arrangement with Shadow Pond, LLC terminated and Mr. Negi continues to provide services as an employee of the Company. For the year ended December 31, 2019, the Company incurred no expenses for these services. The expense recognized for these services was approximately $0.1 million and $0.5 million for the years ended December 31, 2018 and 2017, respectively.

*Relationship with HandsOn Global Management*

The Company incurred management fees to HGM, SourceHOV's former owner, of $6.0 million for the year ended December 31, 2017. The contract with HGM was terminated upon consummation of the Novitex Business Combination, and no fees were payable after July 12, 2017.

The Company incurred reimbursable travel expenses to HGM of $0.6 million, less than $0.1 million and $0.9 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Pursuant to a master agreement dated January 1, 2015 between Rule 14, LLC and a subsidiary of the Company, the Company incurs marketing fees to Rule 14, LLC, a portfolio company of HGM. Similarly, the Company is party to ten master agreements with entities affiliated with HGM's managed funds, each of which were entered into during 2015 and 2016. Each master agreement provides the Company with use of certain technology and includes a reseller arrangement pursuant to which the Company is entitled to sell these services to third parties. Any revenue earned by the Company in such third-party sale is shared 75%/25% with each of HGM's venture affiliates in favor of the Company. The brands Zuma, Athena, Peri, BancMate, Spring, Jet, Teletype, CourtQ and Rewardio are part of the HGM managed funds. The Company has the license to use and resell such brands, as described therein. The Company incurred fees relating to these agreements of $1.0 million, $0.7 million, and $0.6 million for the years ended December 31, 2019, 2018 and 2017, respectively.

During 2017, the Company incurred contract cancellation and advising fees to HGM of $23.0 million, $10.0 million of which was paid by the issuance of 1,250,000 shares of Common Stock, relating to the Novitex Business Combination. No such fees were incurred in 2019 and 2018.

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*Relationship with HOV Services, Ltd.*

HOV Services, Ltd. provides the Company data capture and technology services. The expense recognized for these services was approximately $1.5 million, $1.6 million, and $1.7 million for the years ended December 31, 2019, 2018, and 2017, respectively. These expenses are included in cost of revenue in the consolidated statements of operations.

*Relationship with Apollo Global Management, Inc.*

The Company provides services to and receives services from certain Apollo Global Management, Inc. ("Apollo") affiliated companies. Funds managed by Apollo held the second largest position in our Common Stock following the Novitex Business Combination and had the right to designate two of the Company's directors pursuant to a director nomination agreement. Apollo has announced that its affiliated funds ceased being shareholders on March 11, 2020.

On November 18, 2014, one of the Company's subsidiaries entered into a master services agreement with an indirect wholly owned subsidiary of Apollo. Pursuant to this master services agreement, the Company provides printer supplies and maintenance services, including toner maintenance, training, quarterly business review and printer procurement. The Company recognized revenue of $0.6 million, $0.6 million and $0.3 million under this agreement for the years ended December 31, 2019, 2018 and 2017, respectively, in our consolidated statements of operations.

On January 18, 2017, one of the Company's subsidiaries entered into a master purchase and professional services agreement with Caesars Enterprise Services, LLC (''Caesars''). Caesars is controlled by investment funds affiliated with Apollo. Pursuant to this master purchase and professional services agreement, the Company provides managed print services to Caesars, including general equipment operation, supply management, support services and technical support. The Company recognized revenue of $4.4 million, $4.1 million and $1.2 million for years ended December 31, 2019, 2018 and 2017.

On May 5, 2017, one of the Company's subsidiaries entered into a master services agreement with ADT LLC. ADT LLC is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, the Company provides ADT LLC with mailroom and onsite mail delivery services at an ADT LLC office location and managed print services, including supply management, equipment maintenance and technical support services. The Company recognized revenue of $1.2 million, $0.6 million and less than $0.1 million in our consolidated statements of operations from ADT LLC under this master services agreement for the years ended December 31, 2019, 2018 and 2017.

On July 20, 2017, one of the Company's subsidiaries entered into a master services agreement with Diamond Resorts Centralized Services Company. Diamond Resorts Centralized Services Company is controlled by investment funds affiliated with Apollo. Pursuant to this master services agreement, the Company provides commercial print and promotional product procurement services to Diamond Resorts Centralized Services Company, including sourcing, inventory management and fulfillment services. The Company recognized revenue of $5.4 million and $5.7 million for the year ended December 31, 2019 and 2018 and cost of revenue of less than $0.1 million for each of the years ended December 31, 2019 and 2018 from Diamond Resorts Centralized Services Company under this master services agreement. No revenue or cost of revenue was recognized in 2017 under this agreement.

In April 2016, one of the Company's subsidiaries entered into a master services agreement with Presidio Networked Solutions Group, LLC ("Presidio Group"), a wholly owned subsidiary of Presidio, Inc., a portion of which is owned by affiliates of Apollo. Pursuant to this master services agreement, Presidio Group provides the Company with employees, subcontractors, and/or goods and services. For the years ended December 31, 2019, 2018 and 2017 there were related party expenses of $1.0 million, $0.7 million and $0.3 million, respectively, for this service.

In June 2002, one of the Company's subsidiaries entered into a systems purchase and license agreement with Evertec Group LLC ("Evertec"). Evertec is controlled by investment funds affiliated with Apollo. Pursuant to the agreement, the Company provided system and ongoing maintenance services as detailed in the agreement. In August,

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2016, another subsidiary of the Company entered into an equipment maintenance agreement with Evertec. Pursuant to the equipment maintenance agreement, the Company provides preventive and corrective maintenance service to selected equipment listed in the agreement. The Company recognized revenue of $0.3 million, $0.3 million and $0.1 million under these agreements for the year ended December 31, 2019, 2018 and 2017, respectively, in our consolidated statements of operations.

In June 2019, one of the Company's subsidiaries entered into a master lease agreement with Presidio Technology Capital, LLC ("Presidio Capital"), a wholly owned subsidiary of Presidio, Inc., a portion of which is owned by affiliates of Apollo. Pursuant to this master lease agreement, Presidio Capital provides the Company certain equipment on finance lease. The Company recorded a finance lease liability of $1.0 million for this lease. As of December 31, 2019, total finance lease liability of the Company included $0.9 million pertaining to this lease.

*Relationship with Ex-Sigma and Ex-Sigma 2*
The Company made payments totaling $5.6 million to Ex-Sigma 2 during the fourth quarter of 2019. At the time of the payments, they were understood to be a reimbursement of fees and expenses relating to the Appraisal Shares under the terms of the Consent, Waiver and Amendment. At Ex-Sigma 2's request such amount was remitted to pay down a portion of the Margin Loan on behalf of Ex-Sigma 2. Upon further review, it was determined that such expense reimbursement should be considered a reimbursement of the principal and interest on the Margin Loan and thus not subject to reimbursement under the Consent, Waiver and Amendment. These payments were not authorized or approved in advance by the Audit Committee.

Separately, the Company determined it was obligated to reimburse premium payments of $6.9 million made by Ex-Sigma 2 on the Margin Loan under the terms of the Consent, Waiver and Amendment. Pursuant to a written settlement agreement entered into in June 2020, Ex-Sigma, SourceHOV and the Company agreed that the $5.6 million of payments made during the fourth quarter of 2019 would be accepted to fully discharge the Company's obligation to reimburse Ex-Sigma 2 for the $6.9 million of premium payments. The Company recorded related party expenses of $1.7 million and $5.2 million during the years ended December 31, 2019 and 2018, respectively, related to the Company's obligation to reimburse Ex-Sigma 2 for premium payments on the Margin Loan.

The Company incurred reimbursable expenses to Ex-Sigma 2 of $2.1 million and $2.4 million for the years ended December 31, 2019 and 2018, respectively, in connection with secondary offerings of shares by Ex-Sigma 2, the proceeds of which were used to repay the Margin Loan. The reimbursement payments were made in the second half of 2019.

The Company incurred reimbursable expenses to Ex-Sigma 2 of $0.6 million and $0.4 million for the years ended December 31, 2019 and 2018, respectively, in connection with legal expenses of Ex-Sigma 2.

The premium payments, secondary offering fees and legal expenses were reimbursed pursuant to the terms of the Consent, Waiver and Amendment. These expenses are included in related party expense in the consolidated statements of operations.

In addition, in October 2019, the Company awarded $6.3 million in bonuses to certain employees who were also indirect equity holders of Ex-Sigma 2 through their holdings of Ex-Sigma that had been issued upon the vesting of RSUs granted under the 2013 Plan. Ex-Sigma 2 pledged all of its capital stock in the Company as collateral for the Margin Loan. The Company remitted the net amount of $4.6 million (after withholding payroll taxes of $1.7 million) toward the outstanding balance on the Margin Loan in order to benefit such employees.

The bonus amount remitted by the Company was originally determined by Ex-Sigma management based on such employees' over-all equity ownership of Ex-Sigma. Following payment in full of the Margin Loan, during the first quarter of 2020, Ex-Sigma 2 distributed the shares of the Company's capital stock held by it to its sole equity holder, Ex-Sigma, who distributed the shares to its equity holders, including the bonus recipients. These bonus payments were not processed or approved according to the Company's internal control policies. In May 2020, each employee that received

the bonus countersigned an authorization letter confirming their authorization for the Company to remit the amount of their net bonus to pay a portion of the Margin Loan.

The Company recorded the $6.3 million bonus payments as compensation expense in selling, general and administrative expenses in the accompanying statements of operations in the fourth quarter of 2019.

*Payable and Receivable Balances with Affiliates*

Payable and receivable balances with affiliates as of December 31, 2019 and December 31, 2018 are as follows below. As of December 31, 2018 there were no related party receivables:

| | December 31, 2019 | | December 31, 2018 (As Restated) |
|---|---|---|---|
| | Receivable | Payable | Payable |
| HOV Services, Ltd | $ 601 | $ — | $ 405 |
| Rule 14 | — | 250 | 127 |
| HGM | 115 | — | 6,998 |
| Apollo affiliated company | — | 202 | 205 |
| Oakana | — | 1 | — |
| Ex-Sigma 2 | — | 1,287 | 7,628 |
| | $ 716 | $ 1,740 | $ 15,363 |

**19. Segment and Geographic Area Information**

The Company’s operating segments are significant strategic business units that align its products and services with how it manages its business, approaches the markets and interacts with its clients. The Company is organized into three segments: ITPS, HS, and LLPS.

**ITPS:** The ITPS segment provides a wide range of solutions and services designed to aid businesses in information capture, processing, decisioning and distribution to customers primarily in the financial services, commercial, public sector and legal industries.

**HS:** The HS segment operates and maintains a consulting and outsourcing business specializing in both the healthcare provider and payer markets.

**LLPS:** The LLPS segment provides a broad and active array of legal services in connection with class action, bankruptcy labor, claims adjudication and employment and other legal matters.

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The chief operating decision maker reviews segment profit to evaluate operating segment performance and determine how to allocate resources to operating segments. "Segment profit" is defined as revenue less cost of revenue (exclusive of depreciation and amortization). The Company does not allocate Selling, general, and administrative expenses, depreciation and amortization, interest expense and sundry, net. The Company manages assets on a total company basis, not by operating segment, and therefore asset information and capital expenditures by operating segments are not presented. A reconciliation of segment profit to net loss before income taxes is presented below.

| | Year ended December 31, 2019 | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 1,234,284 | $ 256,721 | $ 71,332 | $ 1,562,337 |
| Cost of revenue (exclusive of depreciation and amortization) | 1,001,655 | 180,045 | 43,035 | 1,224,735 |
| **Segment profit** | 232,629 | 76,676 | 28,297 | 337,602 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | | | | 198,864 |
| Depreciation and amortization | | | | 100,903 |
| Impairment of goodwill and other intangible assets | | | | 349,557 |
| Related party expense | | | | 9,501 |
| Interest expense, net | | | | 163,449 |
| Debt modification and extinguishment costs | | | | 1,404 |
| Sundry expense, net | | | | 969 |
| Other expense, net | | | | 14,429 |
| **Net loss before income taxes** | | | | **$ (501,474)** |

| | Year ended December 31, 2018 (As Restated) | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 1,273,647 | $ 228,015 | $ 84,560 | $ 1,586,222 |
| Cost of revenue (exclusive of depreciation and amortization) | 1,010,320 | 151,877 | 51,206 | 1,213,403 |
| **Segment profit** | 263,327 | 76,138 | 33,354 | 372,819 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | | | | 184,908 |
| Depreciation and amortization | | | | 138,077 |
| Impairment of goodwill and other intangible assets | | | | 48,127 |
| Related party expense | | | | 12,403 |
| Interest expense, net | | | | 155,991 |
| Debt modification and extinguishment costs | | | | 1,067 |
| Sundry income, net | | | | (3,271) |
| Other income, net | | | | (3,030) |
| **Net loss before income taxes** | | | | **$ (161,453)** |

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| | Year ended December 31, 2017 (As Restated) | | | |
|---|---|---|---|---|
| | ITPS | HS | LLPS | Total |
| Revenue | $ 820,677 | $ 233,595 | $ 91,619 | $ 1,145,891 |
| Cost of revenue (exclusive of depreciation and amortization) | 619,694 | 152,290 | 55,560 | 827,544 |
| **Segment profit** | 200,983 | 81,305 | 36,059 | 318,347 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | | | | 220,955 |
| Depreciation and amortization | | | | 98,890 |
| Impairment of goodwill and other intangible assets | | | | 69,437 |
| Related party expense | | | | 33,431 |
| Interest expense, net | | | | 129,676 |
| Debt modification and extinguishment costs | | | | 35,512 |
| Sundry expense, net | | | | 2,295 |
| Other income, net | | | | (1,297) |
| **Net loss before income taxes** | | | | **$ (270,552)** |

The following table presents revenues by principal geographic area where the Company's customers are located for the years ended December 31, 2019, 2018, and 2017.

| | Years ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 (As Restated) | 2017 (As Restated) |
| United States | $ 1,286,678 | $ 1,347,516 | $ 1,000,827 |
| EMEA | 248,466 | 211,314 | 130,098 |
| Other | 27,193 | 27,392 | 14,966 |
| Total Consolidated Revenue | $ 1,562,337 | $ 1,586,222 | $ 1,145,891 |

**20. Unaudited Quarterly Financial Data**

The information for the first three quarters of fiscal 2019 and for all fiscal 2018 quarters has been restated to correct the errors described in Note 3, *Restatement of Previously Issued Financial Statements*.

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The following table presents the quarterly information for fiscal 2019 (dollars in thousands, except per share data):

| | Q1 2019 (As Restated) | Q2 2019 (As Restated) | Q3 2019 (As Restated) | Q4 2019 |
|---|---|---|---|---|
| **Revenue:** | | | | |
| ITPS | $ 325,172 | $ 309,840 | $ 292,607 | $ 306,665 |
| HS | 61,343 | 63,440 | 62,132 | 69,806 |
| LLPS | 17,842 | 17,569 | 18,806 | 17,115 |
| Total Revenue | 404,357 | 390,849 | 373,545 | 393,586 |
| **Cost of revenue:** | | | | |
| ITPS | 259,272 | 249,589 | 241,867 | 250,927 |
| HS | 40,341 | 43,353 | 42,717 | 53,634 |
| LLPS | 10,988 | 10,889 | 10,861 | 10,297 |
| Cost of revenue (exclusive of depreciation and amortization) | 310,601 | 303,831 | 295,445 | 314,858 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 49,677 | 51,162 | 48,347 | 49,678 |
| Depreciation and amortization | 26,624 | 24,779 | 25,079 | 24,421 |
| Impairment of goodwill and other intangible assets | — | — | 97,158 | 252,399 |
| Related party expense | 998 | 5,331 | 1,430 | 1,742 |
| **Operating income (loss)** | 16,457 | 5,746 | (93,914) | (249,512) |
| **Other expense (income), net:** | | | | |
| Interest expense, net | 39,701 | 39,959 | 40,573 | 43,216 |
| Debt modification and extinguishment costs | — | 1,404 | — | — |
| Sundry expense (income), net | 2,715 | (1,311) | 165 | (600) |
| Other income, net | 1,493 | 2,527 | 406 | 10,003 |
| **Net loss before income taxes** | (27,452) | (36,833) | (135,058) | (302,131) |
| Income tax (expense) benefit | (4,720) | (4,738) | 3,769 | (1,953) |
| **Net loss** | (32,172) | (41,571) | (131,289) | (304,084) |
| Cumulative dividends for Series A Preferred Stock | (914) | (914) | (884) | (597) |
| **Net loss attributable to common stockholders** | $ (33,086) | $ (42,485) | $ (132,173) | $ (304,681) |
| Weighted average outstanding common shares (Refer to Net Loss per Share discussion in Note 2) | 145,572,221 | 145,466,193 | 145,636,749 | 146,161,353 |
| **Earnings per share:** | | | | |
| Basic and diluted | $ (0.23) | $ (0.29) | $ (0.91) | $ (2.09) |

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The following table presents the quarterly information for fiscal 2018 (dollars in thousands, except per share data):

| | Q1 2018 (As Restated) | Q2 2018 (As Restated) | Q3 2018 (As Restated) | Q4 2018 (As Restated) |
|---|---|---|---|---|
| **Revenue:** | | | | |
| ITPS | $ 311,936 | $ 330,131 | $ 307,313 | $ 324,267 |
| HS | 58,632 | 56,314 | 56,776 | 56,293 |
| LLPS | 22,599 | 23,937 | 18,941 | 19,083 |
| Total Revenue | 393,167 | 410,382 | 383,030 | 399,643 |
| **Cost of revenue:** | | | | |
| ITPS | 246,042 | 262,066 | 247,021 | 255,191 |
| HS | 35,192 | 39,538 | 37,139 | 40,008 |
| LLPS | 13,663 | 13,563 | 12,525 | 11,455 |
| Cost of revenue (exclusive of depreciation and amortization) | 294,897 | 315,167 | 296,685 | 306,654 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 45,519 | 46,378 | 44,897 | 48,114 |
| Depreciation and amortization | 36,239 | 34,744 | 33,410 | 33,684 |
| Impairment of goodwill and other intangible assets | — | — | — | 48,127 |
| Related party expense | 1,181 | 6,783 | 775 | 3,664 |
| **Operating income (loss)** | 15,331 | 7,310 | 7,263 | (40,600) |
| **Other expense (income), net:** | | | | |
| Interest expense, net | 38,676 | 39,229 | 39,087 | 38,999 |
| Debt modification and extinguishment costs | — | — | 1,067 | — |
| Sundry expense (income), net | 229 | (2,122) | (2,283) | 905 |
| Other income, net | (3,621) | (907) | (1,069) | 2,567 |
| **Net loss before income taxes** | (19,953) | (28,890) | (29,539) | (83,071) |
| Income tax (expense) benefit | (4,025) | (1,619) | 733 | (3,442) |
| **Net loss** | (23,978) | (30,509) | (28,806) | (86,513) |
| Cumulative dividends for Series A Preferred Stock | (914) | (914) | (914) | (914) |
| **Net loss attributable to common stockholders** | $ (24,892) | $ (31,423) | $ (29,720) | $ (87,427) |
| Weighted average outstanding common shares (Refer to Net Loss per Share discussion in Note 2) | 147,569,383 | 147,688,855 | 147,092,936 | 147,773,089 |
| **Earnings per share:** | | | — | |
| Basic and diluted | $ (0.17) | $ (0.21) | $ (0.20) | $ (0.59) |

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The restated quarterly Consolidated Balance Sheets for the first three quarters of fiscal 2019 and fiscal 2018 are presented below:

**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Balance Sheets**
(in thousands of United States dollars except share and per share amounts)
(Unaudited)

| | As of March 31, 2019 | | | As of March 31, 2018 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Assets** | | | | | | | |
| *Current assets* | | | | | | | |
| Cash and cash equivalents | $ 8,262 | $ 297 | $ 8,559 | $ 26,882 | $ 2,128 | $ 29,010 | c |
| Restricted cash | 4,998 | (297) | 4,701 | 12,549 | (2,128) | 10,421 | c |
| Accounts receivable, net | 278,064 | — | 278,064 | 238,680 | — | 238,680 | |
| Inventories, net | 16,321 | — | 16,321 | 13,519 | — | 13,519 | |
| Prepaid expenses and other current assets | 25,330 | (78) | 25,252 | 27,520 | — | 27,520 | c |
| **Total current assets** | **332,975** | **(78)** | **332,897** | **319,150** | **—** | **319,150** | |
| Property, plant and equipment, net | 129,621 | — | 129,621 | 132,870 | — | 132,870 | |
| Operating lease right-of-use assets, net | 100,727 | — | 100,727 | — | — | — | |
| Goodwill | 708,285 | — | 708,285 | 747,325 | — | 747,325 | |
| Intangible assets, net | 397,412 | (13,732) | 383,680 | 438,929 | (14,678) | 424,251 | b |
| Deferred income tax assets | 16,202 | 120 | 16,322 | 9,171 | 796 | 9,967 | c |
| Other noncurrent assets | 17,667 | — | 17,667 | 18,490 | — | 18,490 | |
| **Total assets** | **$ 1,702,889** | **$ (13,690)** | **$1,689,199** | **$ 1,665,935** | **$ (13,882)** | **$1,652,053** | |
| Liabilities and Stockholders' Equity (Deficit) | | | | | | | |
| *Current liabilities* | | | | | | | |
| Accounts payables | $ 90,924 | $ — | $ 90,924 | $ 77,194 | $ — | $ 77,194 | |
| Related party payables | 6,184 | 7,628 | 13,812 | 14,172 | — | 14,172 | c |
| Income tax payable | 4,898 | — | 4,898 | 6,967 | — | 6,967 | |
| Accrued liabilities | 63,138 | 41,880 | 105,018 | 31,805 | 38,412 | 70,217 | a, c |
| Accrued compensation and benefits | 57,961 | (2,216) | 55,745 | 49,738 | (2,459) | 47,279 | c |
| Accrued interest | 23,928 | — | 23,928 | 23,795 | — | 23,795 | |
| Customer deposits | 28,410 | — | 28,410 | 36,542 | — | 36,542 | |
| Deferred revenue | 19,966 | — | 19,966 | 15,933 | — | 15,933 | |
| Obligation for claim payment | 46,063 | — | 46,063 | 56,554 | — | 56,554 | |
| Current portion of finance lease liabilities | 15,961 | — | 15,961 | 14,785 | — | 14,785 | |
| Current portion of operating lease liabilities | 27,368 | — | 27,368 | — | — | — | |
| Current portion of long-term debts | 32,821 | — | 32,821 | 21,170 | — | 21,170 | |
| **Total current liabilities** | **417,622** | **47,292** | **464,914** | **348,655** | **35,953** | **384,608** | |
| Long-term debt, net of current maturities | 1,336,152 | — | 1,336,152 | 1,277,029 | — | 1,277,029 | |
| Finance lease liabilities, net of current portion | 27,231 | — | 27,231 | 26,474 | — | 26,474 | |
| Pension liabilities | 25,514 | 2,216 | 27,730 | 26,081 | 2,459 | 28,540 | c |
| Deferred income tax liabilities | 12,439 | 2 | 12,441 | 5,478 | — | 5,478 | c |
| Long-term income tax liabilities | 3,158 | — | 3,158 | 3,470 | — | 3,470 | |
| Operating lease liabilities, net of current portion | 78,290 | — | 78,290 | — | — | — | |
| Other long-term liabilities | 6,747 | — | 6,747 | 13,879 | — | 13,879 | |
| **Total liabilities** | **1,907,153** | **49,510** | **1,956,663** | **1,701,066** | **38,412** | **1,739,478** | |
| Commitments and Contingencies | | | | | | | |
| Shareholders' equity (deficit) | | | | | | | |
| Common Stock | 15 | — | 15 | 15 | — | 15 | |
| Preferred Stock | 1 | — | 1 | 1 | — | 1 | |
| Additional paid-in capital | 482,018 | (36,566) | 445,452 | 482,018 | (36,566) | 445,452 | |
| Treasury stock | (10,342) | — | (10,342) | (249) | — | (249) | |
| Equity-based compensation | 44,529 | — | 44,529 | 35,044 | — | 35,044 | |
| Accumulated deficit | (707,787) | (26,776) | (734,563) | (540,041) | (15,703) | (555,744) | |
| Accumulated other comprehensive loss: | | | | | | | |
| Foreign currency translation adjustment | (3,173) | 142 | (3,031) | (462) | (25) | (487) | |
| Unrealized pension actuarial losses, net of tax | (9,525) | — | (9,525) | (11,457) | — | (11,457) | |
| Total accumulated other comprehensive loss | (12,698) | 142 | (12,556) | (11,919) | (25) | (11,944) | |
| **Total stockholders' equity (deficit)** | **(204,264)** | **(63,200)** | **(267,464)** | **(35,131)** | **(52,294)** | **(87,425)** | |
| **Total liabilities and equity** | **$ 1,702,889** | **$ (13,690)** | **$1,689,199** | **$ 1,665,935** | **$ (13,882)** | **$1,652,053** | |

***As of March 31, 2019***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $41.5 million to accrued liabilities at March 31, 2019.

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(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $13.7 million of decrease to intangible assets, net at March 31, 2019.

(c) Other Misstatement Adjustments:

*Expense Reimbursement Adjustments:* The correction of this misstatement resulted in an increase of $7.6 million to related party payables.

*Other Adjustments - Corrections to other misstatements were as follows:* (i) Reclassification of operating accounts that are not restricted resulted in an increase of $0.3 million in cash and cash equivalents and decrease of $0.3 million to restricted cash. (ii) Reclassification of pension liabilities between long-term and short-term resulted in a decrease of $2.2 million to Accrued compensation and benefits and an increase of $2.2 million to pension liabilities. (iii) Correction of non-accrual of legal expenses related to 2019 resulted in an increase of $0.4 million to accrued liabilities.

***As of March 31, 2018***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $38.4 million to accrued liabilities at March 31, 2018.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $14.7 million of decrease to intangible assets, net at March 31, 2018.

(c) Other Misstatement Adjustments:

*Other Adjustments - Corrections to other misstatements were as follows:* (i) Reclassification of operating accounts that are not restricted resulted in an increase of $2.1 million in cash and cash equivalents and decrease of $2.1 million to restricted cash. (ii) Reclassification of pension liabilities between long-term and short-term resulted in a decrease of $2.5 million to Accrued compensation and benefits and an increase of $2.5 million to pension liabilities. (iii) The correction of all misstatements resulted in an increase of $0.8 million to deferred income tax assets.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Balance Sheets**
(in thousands of United States dollars except share and per share amounts)
(Unaudited)

| | As of June 30, 2019 | | | As of June 30, 2018 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Assets** | | | | | | | |
| *Current assets* | | | | | | | |
| Cash and cash equivalents | $ 18,449 | $ (43) | $ 18,406 | $ 55,783 | $ 1,178 | $ 56,961 | c |
| Restricted cash | 4,977 | 43 | 5,020 | 31,088 | (1,178) | 29,910 | c |
| Accounts receivable, net | 266,660 | — | 266,660 | 262,260 | — | 262,260 | |
| Related party receivables | 206 | — | 206 | — | — | — | |
| Inventories, net | 16,735 | — | 16,735 | 15,088 | — | 15,088 | |
| Prepaid expenses and other current assets | 23,791 | (78) | 23,713 | 24,108 | — | 24,108 | c |
| **Total current assets** | **330,818** | **(78)** | **330,740** | **388,327** | **—** | **388,327** | |
| Property, plant and equipment, net | 125,018 | — | 125,018 | 135,585 | — | 135,585 | |
| Operating lease right-of-use assets, net | 96,498 | — | 96,498 | — | — | — | |
| Goodwill | 708,246 | — | 708,246 | 748,708 | — | 748,708 | |
| Intangible assets, net | 387,775 | (15,771) | 372,004 | 419,725 | (14,268) | 405,457 | b |
| Deferred income tax assets | 16,181 | 120 | 16,301 | 15,280 | 796 | 16,076 | c |
| Other noncurrent assets | 14,714 | — | 14,714 | 21,276 | — | 21,276 | |
| **Total assets** | **$ 1,679,250** | **$ (15,729)** | **$1,663,521** | **$ 1,728,901** | **$ (13,472)** | **$1,715,429** | |
| Liabilities and Stockholders' Equity (Deficit) | | | | | | | |
| *Current liabilities* | | | | | | | |
| Accounts payables | $ 99,089 | $ — | $ 99,089 | $ 86,304 | $ — | $ 86,304 | |
| Related party payables | 238 | 11,433 | 11,671 | 11,987 | 5,036 | 17,023 | c |
| Income tax payable | 2,525 | — | 2,525 | 5,385 | — | 5,385 | |
| Accrued liabilities | 59,487 | 42,778 | 102,265 | 40,737 | 39,114 | 79,851 | a, c |
| Accrued compensation and benefits | 52,493 | (2,275) | 50,218 | 50,905 | (2,496) | 48,409 | c |
| Accrued interest | 48,935 | — | 48,935 | 48,885 | — | 48,885 | |
| Customer deposits | 28,914 | — | 28,914 | 36,997 | — | 36,997 | |
| Deferred revenue | 19,428 | — | 19,428 | 20,654 | — | 20,654 | |
| Obligation for claim payment | 41,496 | — | 41,496 | 94,233 | — | 94,233 | |
| Current portion of finance lease liabilities | 15,897 | — | 15,897 | 16,568 | — | 16,568 | |
| Current portion of operating lease liabilities | 27,444 | — | 27,444 | — | — | — | |
| Current portion of long-term debts | 38,929 | — | 38,929 | 16,299 | 3,500 | 19,799 | |
| **Total current liabilities** | **434,875** | **51,936** | **486,811** | **428,954** | **45,154** | **474,108** | |
| Long-term debt, net of current maturities | 1,331,898 | — | 1,331,898 | 1,281,697 | (3,500) | 1,278,197 | |
| Finance lease liabilities, net of current portion | 25,772 | — | 25,772 | 25,193 | — | 25,193 | |
| Pension liabilities | 24,866 | 2,275 | 27,141 | 30,471 | 2,496 | 32,967 | c |
| Deferred income tax liabilities | 15,896 | 2 | 15,898 | 5,016 | — | 5,016 | c |
| Long-term income tax liabilities | 2,842 | — | 2,842 | 3,470 | — | 3,470 | |
| Operating lease liabilities, net of current portion | 74,290 | — | 74,290 | — | — | — | |
| Other long-term liabilities | 7,882 | — | 7,882 | 16,208 | — | 16,208 | |
| **Total liabilities** | **1,918,321** | **54,213** | **1,972,534** | **1,791,009** | **44,150** | **1,835,159** | |
| Commitments and Contingencies | | | | | | | |
| Shareholders' equity (deficit) | | | | | | | |
| Common Stock | 15 | — | 15 | 15 | — | 15 | |
| Preferred Stock | 1 | — | 1 | 1 | — | 1 | |
| Additional paid-in capital | 482,018 | (36,566) | 445,452 | 482,018 | (36,566) | 445,452 | |
| Treasury stock | (10,949) | — | (10,949) | (3,728) | — | (3,728) | |
| Equity-based compensation | 47,190 | — | 47,190 | 36,980 | — | 36,980 | |
| Accumulated deficit | (742,616) | (33,518) | (776,134) | (565,222) | (21,031) | (586,253) | |
| Accumulated other comprehensive loss: | | | | | | | |
| Foreign currency translation adjustment | (5,461) | 142 | (5,319) | (1,341) | (25) | (1,366) | |
| Unrealized pension actuarial losses, net of tax | (9,269) | — | (9,269) | (10,831) | — | (10,831) | |
| Total accumulated other comprehensive loss | (14,730) | 142 | (14,588) | (12,172) | (25) | (12,197) | |
| **Total stockholders' equity (deficit)** | **(239,071)** | **(69,942)** | **(309,013)** | **(62,108)** | **(57,622)** | **(119,730)** | |
| **Total liabilities and equity** | **$ 1,679,250** | **$ (15,729)** | **$1,663,521** | **$ 1,728,901** | **$ (13,472)** | **$1,715,429** | |

***As of June 30, 2019***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $42.3 million to accrued liabilities at June 30, 2019.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $15.8 million of decrease to intangible assets, net at June 30, 2019.

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(c) Other Misstatement Adjustments:
*Expense Reimbursement Adjustments:* The correction of this misstatement resulted in an increase of $11.4 million to related party payables.
*Other Adjustments - Corrections to other misstatements were as follows:* (i) Reclassification of operating accounts that are not restricted resulted in a decrease of $0.04 million in cash and cash equivalents and increase of $0.04 million to restricted cash. (ii) Reclassification of pension liabilities between long-term and short-term resulted in a decrease of $2.3 million to Accrued compensation and benefits and an increase of $2.3 million to pension liabilities. (iii) Correction of non-accrual of legal expenses related to 2019 resulted in an increase of $0.5 million to accrued liabilities.

***As of June 30, 2018***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $39.1 million to accrued liabilities at June 30, 2018.
(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $14.3 million of decrease to intangible assets, net at June 30, 2018.
(c) Other Misstatement Adjustments:
*Expense Reimbursement Adjustments:* The correction of this misstatement resulted in an increase of $5.0 million to related party payables.
*Other Adjustments - Corrections to other misstatements were as follows:* (i) Reclassification of operating accounts that are not restricted resulted in an increase of $1.2 million in cash and cash equivalents and decrease of $1.2 million to restricted cash. (ii) Reclassification of pension liabilities between long-term and short-term resulted in a decrease of $2.5 million to Accrued compensation and benefits and an increase of $2.5 million to pension liabilities. (iii) Reclassification of debt between current and long-term resulted in an increase of $3.5 million to current portion of long-term debts and a decrease of $3.5 million to long-term debt, net of current maturities. (iv)The correction of all misstatements resulted in an increase of $0.8 million to deferred income tax assets.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Balance Sheets**
(in thousands of United States dollars except share and per share amounts)
(Unaudited)

| | As of September 30, 2019 | | | As of September 30, 2018 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Assets** | | | | | | | |
| *Current assets* | | | | | | | |
| Cash and cash equivalents | $ 10,312 | $ (954) | $ 9,358 | $ 40,692 | $ 514 | $ 41,206 | c |
| Restricted cash | 4,913 | 954 | 5,867 | 8,955 | (514) | 8,441 | c |
| Accounts receivable, net | 260,438 | — | 260,438 | 253,986 | — | 253,986 | |
| Related party receivables | 42 | — | 42 | — | — | — | |
| Inventories, net | 16,996 | — | 16,996 | 16,122 | — | 16,122 | |
| Prepaid expenses and other current assets | 22,695 | (78) | 22,617 | 26,933 | — | 26,933 | c |
| **Total current assets** | **315,396** | **(78)** | **315,318** | **346,688** | **—** | **346,688** | |
| Property, plant and equipment, net | 119,469 | — | 119,469 | 131,156 | — | 131,156 | |
| Operating lease right-of-use assets, net | 93,352 | — | 93,352 | — | — | — | |
| Goodwill | 609,458 | 2,524 | 611,982 | 749,762 | — | 749,762 | |
| Intangible assets, net | 374,445 | (17,331) | 357,114 | 398,280 | (13,385) | 384,895 | b |
| Deferred income tax assets | 15,830 | 120 | 15,950 | 14,810 | 796 | 15,606 | c |
| Other noncurrent assets | 13,557 | — | 13,557 | 21,650 | — | 21,650 | |
| **Total assets** | **$ 1,541,507** | **$ (14,765)** | **$1,526,742** | **$ 1,662,346** | **$ (12,589)** | **$1,649,757** | |
| Liabilities and Stockholders' Equity (Deficit) | | | | | | | |
| *Current liabilities* | | | | | | | |
| Accounts payables | $ 93,815 | $ — | $ 93,815 | $ 90,673 | $ — | $ 90,673 | |
| Related party payables | 274 | 9,933 | 10,207 | 10,756 | 5,036 | 15,792 | c |
| Income tax payable | — | — | — | 5,422 | — | 5,422 | |
| Accrued liabilities | 60,994 | 43,103 | 104,097 | 41,397 | 39,862 | 81,259 | a |
| Accrued compensation and benefits | 51,819 | (2,183) | 49,636 | 54,975 | (2,511) | 52,464 | c |
| Accrued interest | 24,602 | — | 24,602 | 23,845 | — | 23,845 | |
| Customer deposits | 30,161 | — | 30,161 | 39,419 | — | 39,419 | |
| Deferred revenue | 17,368 | — | 17,368 | 18,084 | — | 18,084 | |
| Obligation for claim payment | 43,267 | — | 43,267 | 52,889 | — | 52,889 | |
| Current portion of finance lease liabilities | 15,172 | — | 15,172 | 15,926 | — | 15,926 | |
| Current portion of operating lease liabilities | 26,604 | — | 26,604 | — | — | — | |
| Current portion of long-term debts | 37,237 | — | 37,237 | 20,062 | — | 20,062 | |
| **Total current liabilities** | **401,313** | **50,853** | **452,166** | **373,448** | **42,387** | **415,835** | |
| Long-term debt, net of current maturities | 1,367,583 | — | 1,367,583 | 1,307,884 | — | 1,307,884 | |
| Finance lease liabilities, net of current portion | 24,159 | — | 24,159 | 22,945 | — | 22,945 | |
| Pension liabilities | 26,667 | 2,183 | 28,850 | 30,376 | 2,511 | 32,887 | c |
| Deferred income tax liabilities | 12,677 | 2 | 12,679 | 2,115 | — | 2,115 | c |
| Long-term income tax liabilities | 2,892 | — | 2,892 | 3,470 | — | 3,470 | |
| Operating lease liabilities, net of current portion | 71,661 | — | 71,661 | — | — | — | |
| Other long-term liabilities | 7,866 | — | 7,866 | 15,307 | — | 15,307 | |
| **Total liabilities** | **1,914,818** | **53,038** | **1,967,856** | **1,755,545** | **44,898** | **1,800,443** | |
| Commitments and Contingencies | | | | | | | |
| Shareholders' equity (deficit) | | | | | | | |
| Common Stock | 15 | — | 15 | 15 | — | 15 | |
| Preferred Stock | 1 | — | 1 | 1 | — | 1 | |
| Additional paid-in capital | 482,018 | (36,566) | 445,452 | 482,018 | (36,566) | 445,452 | |
| Treasury stock | (10,949) | — | (10,949) | (5,148) | — | (5,148) | |
| Equity-based compensation | 48,411 | — | 48,411 | 38,601 | — | 38,601 | |
| Accumulated deficit | (876,043) | (31,379) | (907,422) | (594,162) | (20,896) | (615,058) | |
| Accumulated other comprehensive loss: | | | | | | | |
| Foreign currency translation adjustment | (7,786) | 142 | (7,644) | (3,833) | (25) | (3,858) | |
| Unrealized pension actuarial losses, net of tax | (8,978) | — | (8,978) | (10,691) | — | (10,691) | |
| Total accumulated other comprehensive loss | (16,764) | 142 | (16,622) | (14,524) | (25) | (14,549) | |
| **Total stockholders' equity (deficit)** | **(373,311)** | **(67,803)** | **(441,114)** | **(93,199)** | **(57,487)** | **(150,686)** | |
| **Total liabilities and equity** | **$ 1,541,507** | **$ (14,765)** | **$1,526,742** | **$ 1,662,346** | **$ (12,589)** | **$1,649,757** | |

***As of September 30, 2019***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $43.1 million to accrued liabilities at September 30, 2019.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $17.3 million of decrease to intangible assets, net at September 30, 2019.

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(c) Other Misstatement Adjustments:
*Expense Reimbursement Adjustments:* The correction of this misstatement resulted in an increase of $9.9 million to related party payables.
*Other Adjustments - Corrections to other misstatements were as follows:* (i) Reclassification of operating accounts that are not restricted resulted in a decrease of $1.0 million in cash and cash equivalents and increase of $1.0 million to restricted cash. (ii) Reclassification of pension liabilities between long-term and short-term resulted in a decrease of $2.2 million to Accrued compensation and benefits and an increase of $2.2 million to pension liabilities. (iii) Correction of goodwill impairment charges resulted in an increase of $2.5 million to goodwill.

***As of September 30, 2018***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $39.9 million to accrued liabilities at September 30, 2018.
(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $13.4 million of decrease to intangible assets, net at September 30, 2018.
(c) Other Misstatement Adjustments:
*Expense Reimbursement Adjustments:* The correction of this misstatement resulted in an increase of $5.0 million to related party payables for non-accrual of expenses related to reimbursement obligations under the Consent, Waiver and Amendment incurred by Ex-Sigma 2 required to be reimbursed pursuant to the terms of the Consent, Waiver and Amendment.
*Other Adjustments - Corrections to other misstatements were as follows:* (i) Reclassification of operating accounts that are not restricted resulted in an increase of $0.5 million in cash and cash equivalents and decrease of $0.5 million to restricted cash. (ii) Reclassification of pension liabilities between long-term and short-term resulted in a decrease of $2.5 million to Accrued compensation and benefits and an increase of $2.5 million to pension liabilities. (iii) The correction of all misstatements resulted in an increase of $0.8 million to deferred income tax assets.

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The restated quarterly Consolidated Statements of Operations for the first three quarters of fiscal 2019 and each of the quarterly periods in fiscal 2018 are presented below:

**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statement of Operations**
(in thousands of United States dollars)
(Unaudited)

| | For the Three Months Ended March 31, 2019 | | | |
|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| Revenue | $ 403,765 | $ 592 | $ 404,357 | c |
| Cost of revenue (exclusive of depreciation and amortization) | 306,882 | 3,719 | 310,601 | b, c |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 49,949 | (272) | 49,677 | c |
| Depreciation and amortization | 28,020 | (1,396) | 26,624 | b |
| Related party expense | 994 | 4 | 998 | c |
| **Operating loss** | **17,920** | **(1,463)** | **16,457** | |
| **Other expense (income), net:** | | | | |
| Interest expense, net | 38,899 | 802 | 39,701 | a |
| Sundry expense (income), net | 2,531 | 184 | 2,715 | c |
| Other expense (income), net | 1,677 | (184) | 1,493 | c |
| **Net loss before income taxes** | **(25,187)** | **(2,265)** | **(27,452)** | |
| Income tax (expense) benefit | (4,720) | — | (4,720) | |
| **Net loss** | **$ (29,907)** | **$ (2,265)** | **$ (32,172)** | |
| Cumulative dividends for Series A Preferred Stock | (914) | — | (914) | |
| **Net loss attributable to common stockholders** | **$ (30,821)** | **$ (2,265)** | **$ (33,086)** | |

***For the three months ended March 31, 2019***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $0.8 million to interest expense for the three months ended March 31, 2019.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $3.1 million of increase to cost of revenue and a decrease of $1.4 million to depreciation and amortization for the three months ended March 31, 2019.

(c) Other Misstatement Adjustments:

*Revenue Recognition Adjustments:* The correction of this misstatement resulted in an increase of $0.6 million to revenue and an increase of $0.6 million to cost of revenue for the three months ended March 31, 2019.

*Other Adjustments - Corrections to other misstatements were as follows:* (i) Correction of non-accrual of legal expenses resulted in a decrease of $0.3 million to selling, general and administrative expenses. (ii) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of $0.2 million to sundry expense (income), net and a decrease of $0.2 million to other expense (loss), net.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Operations**
(in thousands of United States dollars)
(Unaudited)

| | For the Three Months Ended June 30, 2019 | | | For the Six Months Ended June 30, 2019 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| Revenue | $ 390,160 | $ 689 | $ 390,849 | $ 793,924 | $ 1,282 | $ 795,206 | c |
| Cost of revenue (exclusive of depreciation and amortization) | 298,006 | 5,825 | 303,831 | 604,888 | 9,544 | 614,432 | b, c |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 51,564 | (402) | 51,162 | 101,513 | (674) | 100,839 | c |
| Depreciation and amortization | 27,191 | (2,412) | 24,779 | 55,211 | (3,808) | 51,403 | b, c |
| Related party expense | 1,055 | 4,276 | 5,331 | 2,049 | 4,280 | 6,329 | c |
| **Operating loss** | **12,344** | **(6,598)** | **5,746** | **30,263** | **(8,060)** | **22,203** | |
| **Other expense (income), net:** | | | | | | | |
| Interest expense, net | 39,132 | 827 | 39,959 | 78,031 | 1,629 | 79,660 | a |
| Debt modification and extinguishment costs | 1,404 | — | 1,404 | 1,404 | — | 1,404 | |
| Sundry expense (income), net | (1,493) | 182 | (1,311) | 1,038 | 366 | 1,404 | c |
| Other expense (income), net | 2,709 | (182) | 2,527 | 4,386 | (366) | 4,020 | c |
| **Net loss before income taxes** | **(29,408)** | **(7,425)** | **(36,833)** | **(54,596)** | **(9,689)** | **(64,285)** | |
| Income tax (expense) benefit | (4,738) | — | (4,738) | (9,458) | — | (9,458) | |
| **Net loss** | **$ (34,146)** | **$ (7,425)** | **$ (41,571)** | **$ (64,054)** | **$ (9,689)** | **$ (73,743)** | |
| Cumulative dividends for Series A Preferred Stock | (914) | — | (914) | (1,828) | — | (1,828) | |
| **Net loss attributable to common stockholders** | **$ (35,060)** | **$ (7,425)** | **$ (42,485)** | **$ (65,882)** | **$ (9,689)** | **$ (75,571)** | |

***For the three months ended June 30, 2019***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $0.8 million to interest expense for the three months ended June 30, 2019.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $4.5 million of increase to cost of revenue and a decrease of $1.7 million to depreciation and amortization for the three months ended June 30, 2019.

(c) Other Misstatement Adjustments:

*Revenue Recognition Adjustments:* The correction of this misstatement resulted in an increase of $0.7 million to revenue and an increase of $0.7 million to cost of revenue for the three months ended June 30, 2019.

*Expense Reimbursement Adjustments:* The correction of this misstatement resulted in an increase of $4.3 million to related party expense.

*Other Adjustments - Corrections to other misstatements were as follows:* (i) Correction to reclassify legal expenses and related party expenses to appropriate quarters resulted in a net decrease of $0.4 million to selling, general and administrative expenses. (ii) Correction of ASC 842 implementation related deferred rents resulted in an increase of $0.7 million to cost of revenue. (iii) Correction of amortization related to internally developed software resulted in $0.7 million of decrease to depreciation and amortization. (iv) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of $0.2 million to sundry expense (income), net and a decrease of $0.2 million to other expense (loss), net.

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***For the six months ended June 30, 2019***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $1.6 million to interest expense for the six months ended June 30, 2019.
(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $7.6 million of increase to cost of revenue and a decrease of $3.1 million to depreciation and amortization for the six months ended June 30, 2019.
(c) Other Misstatement Adjustments:
*Revenue Recognition Adjustments:* The correction of this misstatement resulted in an increase of $1.3 million to revenue and an increase of $1.3 million to cost of revenue for the six months ended June 30, 2019.
*Expense Reimbursement Adjustments:* The correction of this misstatement resulted in an increase of $4.3 million to related party expense.
*Other Adjustments - Corrections to other misstatements were as follows:* (i) Correction of non-accrual of legal expenses resulted in a net decrease of $0.7 million to selling, general and administrative expenses. (ii) Correction of ASC 842 implementation related deferred rents resulted in an increase of $0.7 million to cost of revenue. (iii) Correction of amortization related to internally developed software resulted in $0.7 million of decrease to depreciation and amortization. (iv) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of $0.4 million to sundry expense (income), net and a decrease of $0.4 million to other expense (loss), net.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Operations**
(in thousands of United States dollars)
(Unaudited)

| | For the Three Months Ended September 30, 2019 | | | For the Nine Months Ended September 30, 2019 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| Revenue | $ 372,917 | $ 628 | $ 373,545 | $ 1,166,841 | $ 1,910 | $ 1,168,751 | c |
| Cost of revenue (exclusive of depreciation and amortization) | 291,222 | 4,223 | 295,445 | 896,110 | 13,767 | 909,877 | b, c |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 50,372 | (2,025) | 48,347 | 151,884 | (2,698) | 149,186 | c |
| Depreciation and amortization | 27,114 | (2,035) | 25,079 | 82,326 | (5,844) | 76,482 | b, c |
| Impairment of goodwill and other intangible assets | 99,682 | (2,524) | 97,158 | 99,682 | (2,524) | 97,158 | |
| Related party expense | 1,405 | 25 | 1,430 | 3,454 | 4,305 | 7,759 | c |
| **Operating loss** | **(96,878)** | **2,964** | **(93,914)** | **(66,615)** | **(5,096)** | **(71,711)** | |
| **Other expense (income), net:** | | | | | | | |
| Interest expense, net | 39,747 | 826 | 40,573 | 117,778 | 2,457 | 120,235 | a |
| Debt modification and extinguishment costs | — | — | — | 1,404 | — | 1,404 | |
| Sundry expense (income), net | (10) | 175 | 165 | 1,028 | 541 | 1,569 | c |
| Other expense (income), net | 581 | (175) | 406 | 4,965 | (541) | 4,424 | c |
| **Net loss before income taxes** | **(137,196)** | **2,138** | **(135,058)** | **(191,790)** | **(7,553)** | **(199,343)** | |
| Income tax (expense) benefit | 3,769 | — | 3,769 | (5,689) | — | (5,689) | |
| **Net loss** | **$ (133,427)** | **$ 2,138** | **$ (131,289)** | **$ (197,479)** | **$ (7,553)** | **$ (205,032)** | |
| Cumulative dividends for Series A Preferred Stock | (884) | — | (884) | (2,712) | — | (2,712) | |
| **Net loss attributable to common stockholders** | **$ (134,311)** | **$ 2,138** | **$ (132,173)** | **$ (200,191)** | **$ (7,553)** | **$ (207,744)** | |

***For the three months ended September 30, 2019***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $0.8 million to interest expense for the three months ended September 30, 2019.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $3.6 million of increase to cost of revenue and a decrease of $2.7 million to depreciation and amortization for the three months ended September 30, 2019.

(c) Other Misstatement Adjustments:

*Revenue Recognition Adjustments:* The correction of this misstatement resulted in an increase of $0.6 million to revenue and an increase of $0.6 million to cost of revenue for the three months ended September 30, 2019.

*Other Adjustments - Corrections to other misstatements were as follows:* (i) Correction to reclassify legal expenses and related party expenses to appropriate quarters resulted in a net decrease of $2.0 million to selling, general and administrative expenses. (ii) Correction to reclassify goodwill impairment charges resulted in a decrease of $2.5 million to goodwill (iii) Correction of amortization related to internally developed software resulted in $0.7 million of increase to depreciation and amortization. (iv) Correction to reclassify foreign

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exchange transaction gain / loss resulted in an increase of $0.2 million to sundry expense (income), net and a decrease of $0.2 million to other expense (loss), net.

***For the nine months ended September 30, 2019***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $2.5 million to interest expense for the nine months ended September 30, 2019.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $11.2 million of increase to cost of revenue and a decrease of $5.8 million to depreciation and amortization for the nine months ended September 30, 2019.

(c) Other Misstatement Adjustments:

*Revenue Recognition Adjustments:* The correction of this misstatement resulted in an increase of $1.9 million to revenue and an increase of $1.9 million to cost of revenue for the nine months ended September 30, 2019.

*Expense Reimbursement Adjustments:* The correction of this misstatement resulted in an increase of $4.3 million to related party expense.

*Other Adjustments - Corrections to other misstatements were as follows:* (i) Correction to reclassify legal expenses and related party expenses to appropriate quarters resulted in a net decrease of $2.7 million to selling, general and administrative expenses. (ii) Correction to reclassify goodwill impairment charges resulted in a decrease of $2.5 million to goodwill (iii) Correction of ASC 842 implementation related deferred rents resulted in an increase of $0.7 million to cost of revenue. (iv) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of $0.5 million to sundry expense (income), net and a decrease of $0.5 million to other expense (loss), net.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statement of Operations**
(in thousands of United States dollars)
(Unaudited)

| | For the Three Months Ended March 31, 2018 | | | |
|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| Revenue | $ 393,167 | $ — | $ 393,167 | |
| Cost of revenue (exclusive of depreciation and amortization) | 293,792 | 1,105 | 294,897 | b |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 45,595 | (76) | 45,519 | c |
| Depreciation and amortization | 38,019 | (1,780) | 36,239 | b |
| Related party expense | 1,105 | 76 | 1,181 | c |
| **Operating loss** | **14,656** | **675** | **15,331** | |
| **Other expense (income), net:** | | | | |
| Interest expense, net | 38,017 | 659 | 38,676 | a |
| Sundry expense (income), net | (64) | 293 | 229 | c |
| Other expense (income), net | (3,328) | (293) | (3,621) | c |
| **Net loss before income taxes** | **(19,969)** | **16** | **(19,953)** | |
| Income tax (expense) benefit | (4,025) | — | (4,025) | |
| **Net loss** | **$ (23,994)** | **$ 16** | **$ (23,978)** | |
| Cumulative dividends for Series A Preferred Stock | (914) | — | (914) | |
| **Net loss attributable to common stockholders** | **$ (24,908)** | **$ 16** | **$ (24,892)** | |

***For the three months ended March 31, 2018***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $0.7 million to interest expense for the three months ended March 31, 2018.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $1.1 million of increase to cost of revenue and a decrease of $1.8 million to depreciation and amortization for the three months ended March 31, 2018.

(c) Other Misstatement Adjustments:

*Expense Reimbursement Adjustments:* The correction of this misstatement resulted in an increase of $0.1 million to related party expense.

*Other Adjustments - Corrections to other misstatements were as follows:* (i) Correction to reclassify legal expenses as related party expenses resulted in a net decrease of $0.1 million to selling, general and administrative expenses. (ii) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of $0.3 million to sundry expense (income), net and a decrease of $0.3 million to other expense (loss), net.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Operations**
(in thousands of United States dollars)
(Unaudited)

| | For the Three Months Ended June 30, 2018 | | | For the Six Months Ended June 30, 2018 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| Revenue | $ 410,382 | $ — | $ 410,382 | $ 803,549 | $ — | $ 803,549 | |
| Cost of revenue (exclusive of depreciation and amortization) | 313,954 | 1,213 | 315,167 | 607,746 | 2,318 | 610,064 | b |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 46,723 | (345) | 46,378 | 92,318 | (421) | 91,897 | c |
| Depreciation and amortization | 36,368 | (1,624) | 34,744 | 74,386 | (3,404) | 70,982 | b |
| Related party expense | 1,402 | 5,381 | 6,783 | 2,507 | 5,457 | 7,964 | c |
| **Operating loss** | **11,935** | **(4,625)** | **7,310** | **26,592** | **(3,950)** | **22,642** | |
| **Other expense (income), net:** | | | | | | | |
| Interest expense, net | 38,527 | 702 | 39,229 | 76,544 | 1,361 | 77,905 | a |
| Sundry expense (income), net | (2,325) | 203 | (2,122) | (2,389) | 496 | (1,893) | c |
| Other expense (income), net | (704) | (203) | (907) | (4,032) | (496) | (4,528) | c |
| **Net loss before income taxes** | **(23,563)** | **(5,327)** | **(28,890)** | **(43,531)** | **(5,311)** | **(48,842)** | |
| Income tax (expense) benefit | (1,619) | — | (1,619) | (5,644) | — | (5,644) | |
| **Net loss** | $ (25,182) | $ (5,327) | $ (30,509) | $ (49,175) | $ (5,311) | $ (54,486) | |
| Cumulative dividends for Series A Preferred Stock | (914) | — | (914) | (1,828) | — | (1,828) | |
| **Net loss attributable to common stockholders** | $ (26,096) | $ (5,327) | $ (31,423) | $ (51,003) | $ (5,311) | $ (56,314) | |

***For the three months ended June 30, 2018***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $0.7 million to interest expense for the three months ended June 30, 2018.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $1.2 million of increase to cost of revenue and a decrease of $1.6 million to depreciation and amortization for the three months ended June 30, 2018.

(c) Other Misstatement Adjustments:

*Expense Reimbursement Adjustments:* The correction of this misstatement resulted in an increase of $5.4 million to related party expense.

*Other Adjustments - Corrections to other misstatements were as follows:* (i) Correction to reclassify legal expenses as related party expenses resulted in a net decrease of $0.3 million to selling, general and administrative expenses. (ii) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of $0.2 million to sundry expense (income), net and a decrease of $0.2 million to other expense (loss), net.

***For the six months ended June 30, 2018***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $1.4 million to interest expense for the six months ended June 30, 2018.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $2.3 million of increase to cost of revenue and a decrease of $3.4 million to depreciation and amortization for the six months ended June 30, 2018.

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(c) Other Misstatement Adjustments:

_Expense Reimbursement Adjustments:_ The correction of this misstatement resulted in an increase of $5.5 million to related party expense.
_Other Adjustments - Corrections to other misstatements were as follows:_ (i) Correction to reclassify legal expenses as related party expenses resulted in a net decrease of $0.4 million to selling, general and administrative expenses. (ii) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of $0.5 million to sundry expense (income), net and a decrease of $0.5 million to other expense (loss), net.

**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Operations**
(in thousands of United States dollars)
(Unaudited)

| | For the Three Months Ended September 30, 2018 | | | For the Nine Months Ended September 30, 2018 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| Revenue | $ 383,030 | $ — | $ 383,030 | $ 1,186,579 | $ — | $ 1,186,579 | |
| Cost of revenue (exclusive of depreciation and amortization) | 295,936 | 749 | 296,685 | 903,682 | 3,067 | 906,749 | b |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 44,913 | (16) | 44,897 | 137,231 | (437) | 136,794 | c |
| Depreciation and amortization | 35,041 | (1,631) | 33,410 | 109,428 | (5,035) | 104,393 | b |
| Related party expense | 759 | 16 | 775 | 3,267 | 5,472 | 8,739 | c |
| **Operating loss** | **6,381** | **882** | **7,263** | **32,971** | **(3,067)** | **29,904** | |
| **Other expense (income), net:** | | | | | | | |
| Interest expense, net | 38,339 | 748 | 39,087 | 114,883 | 2,109 | 116,992 | a |
| Debt modification and extinguishment costs | 1,067 | — | 1,067 | 1,067 | — | 1,067 | |
| Sundry expense (income), net | (2,571) | 288 | (2,283) | (4,961) | 785 | (4,176) | c |
| Other expense (income), net | (781) | (288) | (1,069) | (4,813) | (784) | (5,597) | c |
| **Net loss before income taxes** | **(29,673)** | **134** | **(29,539)** | **(73,205)** | **(5,177)** | **(78,382)** | |
| Income tax (expense) benefit | 733 | — | 733 | (4,911) | — | (4,911) | |
| **Net loss** | **$ (28,940)** | **$ 134** | **$ (28,806)** | **$ (78,116)** | **$ (5,177)** | **$ (83,293)** | |
| Cumulative dividends for Series A Preferred Stock | (914) | — | (914) | (2,742) | — | (2,742) | |
| **Net loss attributable to common stockholders** | **$ (29,854)** | **$ 134** | **$ (29,720)** | **$ (80,858)** | **$ (5,177)** | **$ (86,035)** | |

***For the three months ended September 30, 2018***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $0.7 million to interest expense for the three months ended September 30, 2018.
(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $0.7 million of increase to cost of revenue and a decrease of $1.6 million to depreciation and amortization for the three months ended September 30, 2018.

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(c) Other Misstatement Adjustments:
*Other Adjustments - Corrections to other misstatements were as follows:* (i) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of $0.3 million to sundry expense (income), net and a decrease of $0.3 million to other expense (loss), net.

***For the nine months ended September 30, 2018***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $2.1 million to interest expense for the nine months ended September 30, 2018.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in $3.0 million of increase to cost of revenue and a decrease of $5.0 million to depreciation and amortization for the nine months ended September 30, 2018.

(c) Other Misstatement Adjustments:
*Expense Reimbursement Adjustments:* The correction of this misstatement resulted in an increase of $5.5 million to related party expense.
*Other Adjustments - Corrections to other misstatements were as follows:* (i) Correction to reclassify legal expenses as related party expenses resulted in a net decrease of $0.4 million to selling, general and administrative expenses. (ii) Correction to reclassify foreign exchange transaction gain / loss resulted in an increase of $0.8 million to sundry expense (income), net and a decrease of $0.8 million to other expense (loss), net.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statement of Operations**
(in thousands of United States dollars)
(Unaudited)

| | For the Three Months Ended December 31, 2018 | | | |
|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| Revenue | $ 399,643 | $ — | $ 399,643 | |
| Cost of revenue (exclusive of depreciation and amortization) | 306,192 | 462 | 306,654 | b, c |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 47,420 | 694 | 48,114 | c |
| Depreciation and amortization | 36,057 | (2,373) | 33,684 | b |
| Impairment of goodwill and other intangible assets | 48,127 | — | 48,127 | |
| Related party expense | 1,068 | 2,596 | 3,664 | c |
| **Operating loss** | **(39,221)** | **(1,379)** | **(40,600)** | |
| **Other expense (income), net:** | | | | |
| Interest expense, net | 38,212 | 787 | 38,999 | a |
| Sundry expense (income), net | 1,689 | (784) | 905 | c |
| Other expense (income), net | 1,783 | 784 | 2,567 | c |
| **Net loss before income taxes** | **(80,905)** | **(2,166)** | **(83,071)** | |
| Income tax (expense) benefit | (3,496) | 54 | (3,442) | |
| **Net loss** | **$ (84,401)** | **$ (2,112)** | **$ (86,513)** | |
| Cumulative dividends for Series A Preferred Stock | (914) | — | (914) | |
| **Net loss attributable to common stockholders** | **$ (85,315)** | **$ (2,112)** | **$ (87,427)** | |

***For the three months ended December 31, 2018***

(a) Appraisal Action Liability Adjustments: The correction of this misstatement resulted in an increase of $0.8 million to interest expense for the three months ended December 31, 2018.

(b) Outsourced Contract Cost Adjustments: The correction of this misstatement resulted in an increase of $1.2 million in cost of revenue and a decrease of $2.4 million to depreciation and amortization for the three months ended December 31, 2018.

(c) Other Misstatement Adjustments:
*Expense Reimbursement Adjustments:* The correction of this misstatement resulted in an increase of $2.6 million to related party expense.
*Other Adjustments - Corrections to other misstatements were as follows:* (i) Correction of ASC 842 implementation related deferred rents resulted in a decrease of $0.7 million to cost of revenue. (ii) Correction of non-accrual of legal expenses resulted in an increase of $0.7 million to selling, general and administrative expenses. (iii) Correction to reclassify foreign exchange transaction gain / loss resulted in a decrease of $0.8 million to sundry expense (income), net and an increase of $0.8 million to other expense (loss), net.

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The restated quarterly Consolidated Statements of Comprehensive Loss for the first three quarters of fiscal 2019 and each of the quarterly periods in fiscal 2018 are presented below:

**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statement of Comprehensive Loss**
(in thousands of United States dollars)
(Unaudited)

| | For the Three Months Ended March 31, 2019 | | | |
|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Net loss** | $ (29,907) | $ (2,265) | $ (32,172) | |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | 3,392 | — | 3,392 | |
| Unrealized pension actuarial gains (losses), net of tax | (224) | — | (224) | |
| **Total other comprehensive loss, net of tax** | **$ (26,739)** | **$ (2,265)** | **$(29,004)** | |

***For the three months ended March 31, 2019***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months ended March 31, 2019 above.

**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Comprehensive Loss**
(in thousands of United States dollars)
(Unaudited)

| | For the Three Months Ended June 30, 2019 | | | For the Six Months Ended June 30, 2019 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Net loss** | $ (34,146) | $ (7,425) | $ (41,571) | $ (64,054) | $ (9,689) | $ (73,743) | |
| Other comprehensive income (loss), net of tax: | | | | | | | |
| Foreign currency translation adjustments | (2,288) | — | (2,288) | 1,104 | — | 1,104 | |
| Unrealized pension actuarial gains (losses), net of tax | 256 | — | 256 | 32 | — | 32 | |
| **Total other comprehensive loss, net of tax** | $ (36,178) | $ (7,425) | $ (43,603) | $ (62,918) | $ (9,689) | $ (72,607) | |

***For the three months and six months ended June 30, 2019***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months and six months ended June 30, 2019 above.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Comprehensive Loss**
(in thousands of United States dollars)
(Unaudited)

| | For the Three Months Ended September 30, 2019 | | | For the Nine Months Ended September 30, 2019 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Net loss** | $ (133,427) | $ 2,138 | $ (131,289) | $ (197,479) | $ (7,553) | $ (205,032) | |
| Other comprehensive income (loss), net of tax: | | | | | | | |
| Foreign currency translation adjustments | (2,325) | — | (2,325) | (1,221) | — | (1,221) | |
| Unrealized pension actuarial gains (losses), net of tax | 291 | — | 291 | 323 | — | 323 | |
| **Total other comprehensive loss, net of tax** | **$ (135,461)** | **$ 2,138** | **$ (133,323)** | **$ (198,377)** | **$ (7,553)** | **$ (205,930)** | |

***For the three months and nine months ended September 30, 2019***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months and nine months ended September 30, 2019 above.

**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statement of Comprehensive Loss**
(in thousands of United States dollars)
(Unaudited)

| | For the Three Months Ended March 31, 2018 | | | |
|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Net loss** | $ (23,994) | $ 16 | $ (23,978) | |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | (268) | — | (268) | |
| Unrealized pension actuarial gains (losses), net of tax | (403) | — | (403) | |
| **Total other comprehensive loss, net of tax** | **$ (24,665)** | **$ 16** | **$(24,649)** | |

***For the three months ended March 31, 2018***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months ended March 31, 2018 above.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Comprehensive Loss**
(in thousands of United States dollars)
(Unaudited)

| | For the Three Months Ended June 30, 2018 | | | For the Six Months Ended June 30, 2018 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Net loss** | $ (25,182) | $ (5,327) | $ (30,509) | $ (49,175) | $ (5,311) | $ (54,486) | |
| Other comprehensive income (loss), net of tax: | | | | | | | |
| Foreign currency translation adjustments | (879) | — | (879) | (1,147) | — | (1,147) | |
| Unrealized pension actuarial gains (losses), net of tax | 626 | — | 626 | 223 | — | 223 | |
| **Total other comprehensive loss, net of tax** | $ (25,435) | $ (5,327) | $ (30,762) | $ (50,099) | $ (5,311) | $ (55,410) | |

***For the three months and six months ended June 30, 2018***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months and six months ended June 30, 2018 above.

**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Comprehensive Loss**
(in thousands of United States dollars)
(Unaudited)

| | For the Three Months Ended September 30, 2018 | | | For the Nine Months Ended September 30, 2018 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Net loss** | $ (28,940) | $ 134 | $ (28,806) | $ (78,116) | $ (5,177) | $ (83,293) | |
| Other comprehensive income (loss), net of tax: | | | | | | | |
| Foreign currency translation adjustments | (2,492) | — | (2,492) | (3,639) | — | (3,639) | |
| Unrealized pension actuarial gains (losses), net of tax | 140 | — | 140 | 363 | — | 363 | |
| **Total other comprehensive loss, net of tax** | $ (31,292) | $ 134 | $ (31,158) | $ (81,392) | $ (5,177) | $ (86,569) | |

***For the three months and nine months ended September 30, 2018***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months and nine months ended September 30, 2018 above.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statement of Comprehensive Loss**
(in thousands of United States dollars)
(Unaudited)

| | For the Three Months Ended December 31, 2018 | | | |
|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Net loss** | $ (84,401) | $ (2,112) | $ (86,513) | |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | (2,733) | 167 | (2,566) | c |
| Unrealized pension actuarial gains (losses), net of tax | 1,390 | — | 1,390 | |
| **Total other comprehensive loss, net of tax** | **$ (85,744)** | **$ (1,945)** | **$ (87,689)** | |

***For the three months ended December 31, 2018***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months ended December 31, 2018 above.

The $0.2 million decrease to foreign currency translation adjustments is primarily the result of changes in outsourced contract costs for foreign subsidiaries.

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The restated Consolidated Statement of Cash Flows for the year-to-date periods of the first three quarters of fiscal 2019 and fiscal 2018 are presented below (dollars in thousands):

**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Cash Flows**
(in thousands of United States dollars unless otherwise stated)
(Unaudited)

| | For the Three Months Ended March 31, 2019 | | | For the Three Months Ended March 31, 2018 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Cash flows from operating activities** | | | | | | | |
| | | | | (23,994) | | | |
| Net loss | $ (29,907) | $ (2,265) | $ (32,172) | $ | $ 16 | $ (23,978) | |
| Adjustments to reconcile net loss | | | | | | | |
| Depreciation and amortization | 28,020 | (1,396) | 26,624 | 38,019 | (1,780) | 36,239 | b |
| Original issue discount and debt issuance cost amortization | 2,852 | — | 2,852 | 2,595 | — | 2,595 | |
| Provision for doubtful accounts | 800 | — | 800 | 481 | — | 481 | |
| Deferred income tax provision | 1,076 | — | 1,076 | 835 | — | 835 | |
| Share-based compensation expense | 2,798 | — | 2,798 | 959 | — | 959 | |
| Foreign currency remeasurement | 35 | — | 35 | (323) | — | (323) | |
| Loss (gain) on sale of assets | 9 | 45 | 54 | 253 | 26 | 279 | c |
| Fair value adjustment for interest rate swap | 1,677 | — | 1,677 | (3,328) | — | (3,328) | |
| Change in operating assets and liabilities, net effect from acquisitions: | | | | | | | |
| Accounts receivable | (8,742) | — | (8,742) | (10,875) | — | (10,875) | |
| Prepaid expenses and other assets | (632) | — | (632) | (5,567) | — | (5,567) | |
| Accounts payable and accrued liabilities | (33,574) | 541 | (33,033) | (18,864) | 659 | (18,205) | c |
| Related party payables | (1,551) | — | (1,551) | (273) | — | (273) | |
| Additions to outsource contract costs | — | (2,434) | (2,434) | — | (492) | (492) | b |
| **Net cash provided by (used in) operating activities** | **(37,139)** | **(5,509)** | **(42,648)** | **(20,082)** | **(1,571)** | **(21,653)** | |
| **Cash flows from investing activities** | | | | | | | |
| Purchases of property, plant, and equipment | (5,572) | — | (5,572) | (5,957) | — | (5,957) | |
| Additions to internally developed software | (1,879) | — | (1,879) | (1,092) | — | (1,092) | |
| Additions to outsourcing contract costs | (5,561) | 5,561 | — | (1,596) | 1,596 | — | b |
| Proceeds from sale of assets | 7 | — | 7 | 2 | — | 2 | |
| **Net cash provided by (used in) investing activities** | **(13,005)** | **5,561** | **(7,444)** | **(8,643)** | **1,596** | **(7,047)** | |
| **Cash flows from financing activities** | | | | | | | |
| Repurchases of Common Stock | (2,872) | — | (2,872) | — | — | — | |
| Borrowings from other loans | 566 | 6,338 | 6,904 | 1,863 | — | 1,863 | c |
| Net borrowings under factoring arrangement | 1,118 | — | 1,118 | — | — | — | |
| Lease terminations | — | (45) | (45) | — | (26) | (26) | c |
| Cash paid for equity issuance costs | — | — | — | (7,500) | — | (7,500) | |
| Borrowings from senior secured revolving facility | 51,000 | — | 51,000 | 25,000 | — | 25,000 | |
| Repayments on senior secured revolving facility | (21,000) | — | (21,000) | (25,000) | — | (25,000) | |
| Principal payments on finance lease obligations | (5,077) | — | (5,077) | (4,803) | — | (4,803) | |
| Principal repayments on senior secured term loans and other loans | (4,153) | (6,345) | (10,498) | (2,947) | — | (2,947) | c |
| **Net cash provided by (used in) financing activities** | **19,582** | **(52)** | **19,530** | **(13,387)** | **(26)** | **(13,413)** | |
| Effect of exchange rates on cash | (32) | — | (32) | 55 | — | 55 | |
| **Net increase (decrease) in cash and cash equivalents** | **(30,594)** | **—** | **(30,594)** | **(42,057)** | **(1)** | **(42,058)** | |
| Cash, restricted cash, and cash equivalents | | | | | | | |
| Beginning of period | 43,854 | — | 43,854 | 81,489 | — | 81,489 | |
| End of period | $ 13,260 | $ — | $ 13,260 | $ 39,432 | $ (1) | $ 39,431 | |
| **Supplemental cash flow data:** | | | | | | | |
| Income tax payments, net of refunds received | $ 1,356 | $ — | $ 1,356 | $ 1,053 | $ — | $ 1,053 | |
| Interest paid | 60,573 | — | 60,573 | 66,192 | — | 66,192 | |
| **Noncash investing and financing activities:** | | | | | | | |
| Assets acquired through right-of-use arrangements | 4,097 | — | 4,097 | 4,432 | — | 4,432 | |
| Leasehold improvements funded by lessor | — | — | — | — | — | — | |
| Accrued capital expenditures | 809 | — | 809 | 1,101 | — | 1,101 | |

***For the three months ended March 31, 2019***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months ended March 31, 2019 above.

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of $3.8 million ($1.4 million of depreciation and amortization and $2.4 million of additions to outsourcing contract costs), and an increase to net cash flows provided by investing activities of $5.6 million (Additions to outsourcing contract costs) for the three months ended March 31, 2019.

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The misstatements in the cash flow misclassifications category related to (i) Lease terminations resulted in a decrease to net cash flows provided by financing activities of $0.05 million and an increase to net cash flows provided by operating activities of $0.05 million for the year ended December 31, 2018. (Loss on sale of assets and lease terminations), and (ii) Grossing up of borrowing and pay downs of a working capital loan on a foreign subsidiary resulting in an increase of $6.3 million of borrowings from other loans and a decrease of $6.3 million of principal repayments on other loans, both of which were neutral and within net cash provided by financing.

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the three months ended March 31, 2019.

***For the three months ended March 31, 2018***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the three months ended March 31, 2018 above.

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of $2.3 million ($1.8 million of depreciation and amortization and $0.5 million of additions to outsourcing contract costs), and an increase to net cash flows provided by investing activities of $1.6 million (Additions to outsourcing contract costs) for the three months ended March 31, 2018.

The misstatements in the cash flow misclassifications category related to lease terminations resulted in a decrease to net cash flows provided by financing activities of $0.03 million and an increase to net cash flows provided by operating activities of $0.03 million for the year ended December 31, 2018 (Loss on sale of assets and lease terminations).

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the three months ended March 31, 2018.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Cash Flows**
(in thousands of United States dollars unless otherwise stated)
(Unaudited)

| | For the Six Months Ended June 30, 2019 | | | For the Six Months Ended June 30, 2018 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Cash flows from operating activities** | | | | | | | |
| Net loss | $ (64,054) | $ (9,689) | $ (73,743) | $ (49,175) | $ (5,311) | $ (54,486) | |
| Adjustments to reconcile net loss | | | | | | | |
| Depreciation and amortization | 55,211 | (3,808) | 51,403 | 74,386 | (3,404) | 70,982 | b, c |
| Original issue discount and debt issuance cost amortization | 5,749 | — | 5,749 | 5,272 | — | 5,272 | |
| Debt modification and extinguishment costs | 1,049 | — | 1,049 | — | — | — | |
| Provision for doubtful accounts | 3,334 | — | 3,334 | 1,857 | — | 1,857 | |
| Deferred income tax provision | 4,623 | — | 4,623 | 705 | — | 705 | |
| Share-based compensation expense | 5,459 | — | 5,459 | 2,895 | — | 2,895 | |
| Foreign currency remeasurement | 288 | — | 288 | (1,156) | — | (1,156) | |
| Loss (gain) on sale of assets | (10) | 95 | 85 | 1,340 | 55 | 1,395 | c |
| Fair value adjustment for interest rate swap | 4,385 | — | 4,385 | (4,675) | — | (4,675) | |
| Change in operating assets and liabilities, net effect from acquisitions: | | | | | | | |
| Accounts receivable | 624 | — | 624 | (19,813) | — | (19,813) | |
| Prepaid expenses and other assets | 1,260 | — | 1,260 | (1,603) | — | (1,603) | |
| Accounts payable and accrued liabilities | (14,991) | 2,396 | (12,595) | 40,677 | 1,361 | 42,038 | c |
| Related party payables | (7,703) | 3,804 | (3,899) | (2,458) | 5,036 | 2,578 | c |
| Additions to outsource contract costs | — | (2,860) | (2,860) | — | (1,377) | (1,377) | b |
| **Net cash provided by (used in) operating activities** | **(4,776)** | **(10,062)** | **(14,838)** | **48,252** | **(3,640)** | **44,612** | |
| **Cash flows from investing activities** | | | | | | | |
| Purchases of property, plant, and equipment | (9,072) | — | (9,072) | (10,244) | — | (10,244) | |
| Additions to internally developed software | (4,007) | — | (4,007) | (2,115) | — | (2,115) | |
| Additions to outsourcing contract costs | (10,440) | 10,440 | — | (3,695) | 3,695 | — | b |
| Proceeds from sale of assets | 20 | — | 20 | 1,014 | — | 1,014 | |
| Cash paid in acquisition, net of cash received | (5,000) | — | (5,000) | (4,145) | — | (4,145) | |
| **Net cash provided by (used in) investing activities** | **(28,499)** | **10,440** | **(18,059)** | **(19,185)** | **3,695** | **(15,490)** | |
| **Cash flows from financing activities** | | | | | | | |
| Third party debt modification and extinguishment costs | 355 | (355) | — | — | — | — | c |
| Repurchases of Common Stock | (3,480) | — | (3,480) | (3,479) | — | (3,479) | |
| Borrowings from other loans | 1,544 | 12,548 | 14,092 | 2,152 | — | 2,152 | c |
| Net borrowings under factoring arrangement | 2,426 | — | 2,426 | — | — | — | |
| Proceeds from senior secured term loans | 29,850 | — | 29,850 | — | — | — | |
| Lease terminations | — | (95) | (95) | — | (56) | (56) | c |
| Cash paid for debt issuance costs | (362) | 355 | (7) | — | — | — | c |
| Cash paid for equity issuance costs | — | — | — | (7,500) | — | (7,500) | |
| Borrowings from senior secured revolving facility | 68,000 | — | 68,000 | 30,000 | — | 30,000 | |
| Repayments on senior secured revolving facility | (68,000) | — | (68,000) | (30,000) | — | (30,000) | |
| Principal payments on finance lease obligations | (9,180) | — | (9,180) | (8,404) | — | (8,404) | |
| Principal repayments on senior secured term loans and other loans | (8,417) | (12,831) | (21,248) | (6,043) | — | (6,043) | c |
| **Net cash provided by (used in) financing activities** | **12,736** | **(378)** | **12,358** | **(23,274)** | **(56)** | **(23,330)** | |
| Effect of exchange rates on cash | 111 | — | 111 | (410) | — | (410) | |
| **Net increase (decrease) in cash and cash equivalents** | **(20,428)** | **—** | **(20,428)** | **5,383** | **(1)** | **5,382** | |
| Cash, restricted cash, and cash equivalents | | | | | | | |
| Beginning of period | 43,854 | — | 43,854 | 81,489 | — | 81,489 | |
| End of period | $ 23,426 | $ — | $ 23,426 | $ 86,872 | $ (1) | $ 86,871 | |
| **Supplemental cash flow data:** | | | | | | | |
| Income tax payments, net of refunds received | $ 5,181 | $ — | $ 5,181 | $ 3,864 | $ — | $ 3,864 | |
| Interest paid | 71,240 | (29) | 71,211 | 76,353 | — | 76,353 | c |
| **Noncash investing and financing activities:** | | | | | | | |
| Assets acquired through right-of-use arrangements | 6,778 | — | 6,778 | 7,787 | — | 7,787 | |
| Leasehold improvements funded by lessor | — | — | — | 1,540 | — | 1,540 | |
| Accrued capital expenditures | 1,083 | — | 1,083 | 1,144 | — | 1,144 | |

***For the six months ended June 30, 2019***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the six months ended June 30, 2019 above.

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of $6.7 million ($3.8 million of depreciation and amortization and $2.9 million of additions to outsourcing contract costs), and an increase to net cash flows provided by investing activities of $10.4 million (Additions to outsourcing contract costs) for the six months ended June 30, 2019.

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The misstatements in the cash flow misclassifications category related to (i) Lease terminations resulted in a decrease to net cash flows provided by financing activities of $0.1 million and an increase to net cash flows provided by operating activities of $0.1 million for the year ended December 31, 2018. (Loss on sale of assets and lease terminations), (ii) Grossing up of borrowing and pay downs of a working capital loan on a foreign subsidiary resulting in an increase of $12.5 million of borrowings from other loans and a decrease of $12.8 million of principal repayments on other loans, both of which were neutral and within net cash provided by financing, and (iii) Cash flow classification adjustment related to incorrect interpretation of ASU 2016-15 (Classification of Certain Receipts and Cash Payments) in 2018 resulted in a line item classification change within cash flows provided by financing activities (Decrease of $0.4 million of Third party debt modification and extinguishment costs and an increase of $0.4 million of cash paid for debt issuance costs).

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the six months ended June 30, 2019.

***For the six months ended June 30, 2018***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the six months ended June 30, 2018 above.

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of $4.8 million ($3.4 million of depreciation and amortization and $1.4 million of additions to outsourcing contract costs), and an increase to net cash flows provided by investing activities of $3.7 million (Additions to outsourcing contract costs) for the six months ended June 30, 2018.

The misstatements in the cash flow misclassifications category related to lease terminations resulted in a decrease to net cash flows provided by financing activities of $0.06 million and an increase to net cash flows provided by operating activities of $0.06 million for the six months ended June 30, 2018.

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the six months ended June 30, 2018.

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**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Cash Flows**
(in thousands of United States dollars unless otherwise stated)
(Unaudited)

| | For the Nine Months Ended September 30, 2019 | | | For the Nine Months Ended September 30, 2018 | | | |
|---|---|---|---|---|---|---|---|
| | As Previously Reported | Restatement Adjustment | As Restated | As Previously Reported | Restatement Adjustment | As Restated | Restatement Reference |
| **Cash flows from operating activities** | | | | | | | |
| Net loss | $ (197,479) | $ (7,553) | $ (205,032) | $ (78,116) | $ (5,177) | $ (83,293) | |
| Adjustments to reconcile net loss | | | | | | | |
| Depreciation and amortization | 82,326 | (5,844) | 76,482 | 109,428 | (5,035) | 104,393 | b |
| Original issue discount and debt issuance cost amortization | 8,730 | — | 8,730 | 8,062 | — | 8,062 | |
| Impairment of goodwill and other intangible assets | 99,682 | (2,524) | 97,158 | — | — | — | c |
| Debt modification and extinguishment costs | 1,049 | — | 1,049 | — | 103 | 103 | |
| Provision for doubtful accounts | 4,402 | — | 4,402 | 2,470 | — | 2,470 | |
| Deferred income tax provision | 1,632 | — | 1,632 | (3,689) | — | (3,689) | |
| Share-based compensation expense | 6,903 | — | 6,903 | 4,516 | — | 4,516 | |
| Foreign currency remeasurement | (173) | — | (173) | (2,040) | — | (2,040) | |
| Loss (gain) on sale of assets | (191) | 314 | 123 | 1,835 | 213 | 2,048 | c |
| Fair value adjustment for interest rate swap | 4,965 | — | 4,965 | (5,456) | — | (5,456) | |
| Change in operating assets and liabilities, net effect from acquisitions: | | | | | | | |
| Accounts receivable | 3,501 | — | 3,501 | (6,374) | — | (6,374) | |
| Prepaid expenses and other assets | 2,377 | — | 2,377 | (5,770) | — | (5,770) | |
| Accounts payable and accrued liabilities | (43,861) | 2,715 | (41,146) | (23,457) | 2,109 | (21,348) | c |
| Related party payables | (7,502) | 2,304 | (5,198) | (3,689) | 5,036 | 1,347 | c |
| Additions to outsource contract costs | — | (3,130) | (3,130) | — | (2,360) | (2,360) | b |
| **Net cash provided by (used in) operating activities** | (33,639) | (13,718) | (47,357) | (2,280) | (5,111) | (7,391) | |
| **Cash flows from investing activities** | | | | | | | |
| Purchases of property, plant, and equipment | (10,797) | — | (10,797) | (14,077) | — | (14,077) | |
| Additions to internally developed software | (5,074) | — | (5,074) | (3,080) | — | (3,080) | |
| Additions to outsourcing contract costs | (14,304) | 14,304 | — | (5,427) | 5,427 | — | b |
| Proceeds from sale of assets | 360 | — | 360 | 1,095 | — | 1,095 | |
| Cash paid in acquisition, net of cash received | (5,000) | — | (5,000) | (6,513) | — | (6,513) | |
| **Net cash provided by (used in) investing activities** | (34,815) | 14,304 | (20,511) | (28,002) | 5,427 | (22,575) | |
| **Cash flows from financing activities** | | | | | | | |
| Third party debt modification and extinguishment costs | 355 | (355) | — | 1,067 | (1,067) | — | c |
| Repurchases of Common Stock | (3,480) | — | (3,480) | (4,899) | — | (4,899) | |
| Borrowings from other loans | 1,728 | 19,802 | 21,530 | 3,068 | — | 3,068 | c |
| Net borrowings under factoring arrangement | (494) | — | (494) | — | — | — | |
| Cash paid for withholding taxes on vested RSUs | (223) | — | (223) | — | — | — | |
| Proceeds from senior secured term loans | 29,850 | — | 29,850 | 30,000 | — | 30,000 | |
| Lease terminations | — | (314) | (314) | — | (213) | (213) | c |
| Cash paid for debt issuance costs | (362) | 355 | (7) | (1,094) | 964 | (130) | c |
| Cash paid for equity issuance costs | — | — | — | (7,500) | — | (7,500) | |
| Borrowings from senior secured revolving facility | 130,500 | — | 130,500 | 30,000 | — | 30,000 | |
| Repayments on senior secured revolving facility | (91,500) | — | (91,500) | (30,000) | — | (30,000) | |
| Principal payments on finance lease obligations | (13,598) | — | (13,598) | (12,594) | — | (12,594) | |
| Principal repayments on senior secured term loans and other loans | (12,922) | (20,074) | (32,996) | (9,053) | — | (9,053) | c |
| **Net cash provided by (used in) financing activities** | 39,854 | (586) | 39,268 | (1,005) | (316) | (1,321) | |
| Effect of exchange rates on cash | (29) | — | (29) | (555) | — | (555) | |
| **Net increase (decrease) in cash and cash equivalents** | **(28,629)** | **—** | **(28,629)** | **(31,842)** | **—** | **(31,842)** | |
| Cash, restricted cash, and cash equivalents | | | | | | | |
| Beginning of period | 43,854 | — | 43,854 | 81,489 | — | 81,489 | |
| End of period | $ 15,225 | $ — | $ 15,225 | $ 49,647 | $ — | $ 49,647 | |
| **Supplemental cash flow data:** | | | | | | | |
| Income tax payments, net of refunds received | $ 6,981 | $ — | $ 6,981 | $ 5,296 | $ — | $ 5,296 | |
| Interest paid | 131,773 | (29) | 131,744 | 136,396 | — | 136,396 | c |
| **Noncash investing and financing activities:** | | | | | | | |
| Assets acquired through right-of-use arrangements | 9,352 | — | 9,352 | 9,318 | — | 9,318 | |
| Leasehold improvements funded by lessor | — | — | — | 1,565 | — | 1,565 | |
| Accrued capital expenditures | 1,083 | 1,305 | 2,388 | 1,994 | — | 1,994 | c |

***For the nine months ended September 30, 2019***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the nine months ended September 30, 2019 above.

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of $8.9 million ($5.8 million of depreciation and amortization and $3.1 million of additions to

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outsourcing contract costs), and an increase to net cash flows provided by investing activities of $14.3 million (Additions to outsourcing contract costs) for the nine months ended September 30, 2019.

The misstatements in the cash flow misclassifications category related to (i) Lease terminations resulted in a decrease to net cash flows provided by financing activities of $0.3 million and an increase to net cash flows provided by operating activities of $0.3 million for the year ended December 31, 2018. (Loss on sale of assets and lease terminations), (ii) Grossing up of borrowing and pay downs of a working capital loan on a foreign subsidiary resulting in an increase of $19.8 million of borrowings from other loans and a decrease of $20.1 million of principal repayments on other loans, both of which were within net cash provided by financing, and (iii) Cash flow classification adjustment related to incorrect interpretation of ASU 2016-15 (Classification of Certain Receipts and Cash Payments) in 2018 resulted in a line item classification change within cash flows provided by financing activities (Decrease of $0.4 million of Third party debt modification and extinguishment costs and an increase of $0.4 million of cash paid for debt issuance costs).

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the nine months ended September 30, 2019.

***For the nine months ended September 30, 2018***

Refer to descriptions of the adjustments and their impact on net loss in the Consolidated Statement of Operations section for the nine months ended September 30, 2018 above.

The misstatements in the outsourcing contract cost adjustment category resulted in a decrease to net cash flows provided by operating activities of $7.4 million ($5.0 million of depreciation and amortization and $2.4 million of additions to outsourcing contract costs), and an increase to net cash flows provided by investing activities of $5.4 million (Additions to outsourcing contract costs) for the nine months ended September 30, 2018.

The misstatements in the cash flow misclassifications category related to (i) Lease terminations resulted in a decrease to net cash flows provided by financing activities of $0.2 million and an increase to net cash flows provided by operating activities of $0.2 million for the year ended December 31, 2018 (Loss on sale of assets and lease terminations), (ii) Cash flow classification adjustment related to incorrect interpretation of ASU 2016-15 (Classification of Certain Receipts and Cash Payments) in 2018 resulted in a net increase to cash flows provided by operating activities of $0.1 million, a decrease to net cash flows provided by financing activities of $0.1 million for the year ended December 31, 2018. (Increase of $0.1 million to Debt modification and extinguishment costs, a decrease of $1.1 million to third party debt modification and extinguishment costs and an increase of $1.0 million to cash paid for debt issuance costs)

No other misstatements impacted the classifications between net operating, net investing, or net financing cash flow activities for the nine months ended September 30, 2018.

**21. Subsequent Events**

The Company performed its subsequent event procedures through June 8, 2020, the date these consolidated financial statements were made available for issuance.

**Receivables Securitization Facility**

On January 10, 2020, certain subsidiaries of the Company entered into a $160.0 million accounts receivable securitization facility (the “A/R Facility”) with a five year term. In the A/R Facility, (i) Exela Receivables 1, LLC (the “A/R Borrower”), a wholly-owned indirect subsidiary of the Company, entered into a Loan and Security Agreement (the “A/R Loan Agreement”), dated as of January 10, 2020, with TPG Specialty Lending, Inc., as administrative agent (the “A/R Administrative Agent”), PNC Bank National Association, as LC Bank (the “LC Bank”), the lenders (each, an “A/R Lender” and collectively the “A/R Lenders”) and the Company, as initial servicer, pursuant to which the A/R Lenders will make loans (the “Loan”) to the A/R Borrower to be used to purchase certain receivables and related assets from its sole member, Exela Receivables Holdco, LLC (the “Parent SPE”), a wholly-owned indirect subsidiary of the Company,

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(ii) sixteen other indirect, wholly-owned U.S. subsidiaries of the Company (collectively, the “Originators”) sold or contributed and will sell or contribute to the Parent SPE certain receivables and related assets in consideration for a combination of cash, equity in the Parent SPE and/or letters of credit issued by the LC Bank to the Originators; and (iii) the Parent SPE has sold or contributed and will sell or contribute to the Borrower certain receivables and related assets in consideration for a combination of cash, equity in the A/R Borrower and/or letters of credit issued by the LC Bank to the beneficiaries elected by Parent SPE.

The Company, the Parent SPE, the A/R Borrower and the Originators provide customary representations and covenants pursuant to the agreements entered into in connection with the A/R Facility. The A/R Loan Agreement provides for certain events of default upon the occurrence of which the A/R Administrative Agent may declare the A/R Facility’s termination date to have occurred and declare the outstanding Loan and all other obligations of the A/R Borrower to be immediately due and payable. The Company used the proceeds of the initial borrowings to repay outstanding revolving borrowings under the Company’s senior credit facility and to provide additional liquidity and funding for the ongoing business needs of the Company and its subsidiaries.

Pursuant to the A/R Loan Agreement, each of Company, the A/R Borrower, the Parent SPE and the Originators (the “Exela Parties”) is prohibited from amending or modifying any Existing Secured Debt Documents (as defined in the A/R Loan Agreement) if such amendment or modification could: (i) by its terms cause any Exela Party to be unable to perform its obligations under Transaction Documents (as defined in the A/R Loan Agreement), (ii) cause any inaccuracy or breach of any representation, warranty, or covenant of any Exela Party, (iii) could subject any existing or subsequently arising Collateral to an Adverse Claim (each as defined in the A/R Loan Agreement), or (iv) adversely affect any rights or remedies of the Lenders, the LC Bank and the A/R Administrative Agent under the A/R Facility. The A/R Borrower and Parent SPE were formed in December 2019, and are consolidated into the Company’s financial statements even though they had no material assets or operations during the year end December 31, 2019. The A/R Borrower and Parent SPE are bankruptcy remote entities and as such their assets are not available to creditors of the Company or any of its subsidiaries. Since January 10, 2020, the parties have amended and waived the A/R Facility several times to address contractually, the occurrence of certain events, including among other things, the delay in delivery of these Financial Statements, financial statements for the quarter ended March 31, 2020, and the Initial Servicer’s liquidity (as defined in the A/R Facility) falling below $60.0 million.

**Sale of SourceHOV Tax, LLC**

On March 16, 2020, the Company and its indirect wholly owned subsidiaries, Merco Holdings, LLC and SourceHOV Tax, LLC entered into a Membership Interest Purchase Agreement with Gainline Source Intermediate Holdings LLC at which time Gainline Source Intermediate Holdings LLC acquired all of the outstanding membership interests of SourceHov Tax for $40.0 million, subject to adjustment as set forth in the purchase agreement of approximately $2.0 million.

**Impact of COVID-19**

In December 2019, a novel strain of coronavirus was reported to have surfaced in Wuhan, China, which has and is continuing to spread throughout other parts of the world, including the United States. On January 30, 2020, the World Health Organization declared the outbreak of the coronavirus disease ("COVID-19") a “Public Health Emergency of International Concern,” and on March 11, 2020, the World Health Organization characterized the outbreak as a “pandemic”.

The Company is dependent on its workforce to deliver its solutions and services. Developments such as social distancing and stay-at-home orders from various jurisdictions may impact the Company’s ability to deploy its workforce effectively.

Additionally, COVID-19 has spread to most of the countries in the world and throughout the United States, creating a serious impact on customers, workforces, suppliers, disrupting economies and financial markets, and potentially leading to a world-wide economic downturn. While expected to be temporary, prolonged workforce disruptions may negatively impact sales in fiscal year 2020 and the Company’s overall liquidity.

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The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Management is actively monitoring the global situation and its impact on the Company's financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate adverse effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.

**Amendment to Credit Agreement**

Under the terms of each of the Credit Agreement, the Company was required to deliver to the lenders the December 31, 2019 audited financial statements by April 14, 2020, which the Company failed to do. On May 18, 2020, the Company amended the Credit Agreement to, among other things, extend the time for delivery of its audited financial statements for the year ended December 31, 2019 and its financial statements for the quarter ended March 31, 2020. Pursuant to the amendment, the Company also amended the Credit Agreement to, among other things: restrict the borrower and its subsidiaries' ability to designate or invest in unrestricted subsidiaries; incur certain debt; create certain liens; make certain investments; pay certain dividends or other distributions on account of its equity interests; make certain asset sales or other dispositions (or utilize the proceeds of certain asset sales to reinvest in the business); or enter into certain affiliate transactions pursuant to the negative covenants under the Credit Agreement. Further, pursuant to the amendment, the borrower under the Credit Agreement is also required to maintain a minimum Liquidity (as defined in the amendment) of $35.0 million. In the event the Company delivers the annual and quarterly financial statements described above within the time frames stated within such agreements (which the Company believes it has now satisfied with respect to the annual financial statements, but not with respect quarterly financial statements), the Company will, upon delivery of such financial statements, be in compliance with the Credit Agreement.

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## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2019. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based upon that evaluation, as discussed below, our CEO and CFO have concluded that, as of the end of the period covered by this Annual Report, our disclosure controls and procedures were not effective because of the material weaknesses in internal control over financial reporting described below.

Notwithstanding such material weaknesses in internal control over financial reporting, our management, including our CEO and CFO, has concluded that our consolidated financial statements as of and for the year ended December 31, 2019 and our restated consolidated balance sheets as of December 31, 2018 and the related consolidated statements of operations and consolidated statements of cash flows for the fiscal years ended December 31, 2018 and 2017, present fairly, in all material respects, our financial position, results of our operations and our cash flows for the periods presented in this Annual Report, in conformity with U.S. generally accepted accounting principles.

**Management's Report on Internal Control over Financial Reporting**

Management, under the supervision of the board of directors, is responsible for establishing and maintaining adequate "internal control over financial reporting," as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of its inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (2013) (the "COSO 2013 Framework"). Based on its assessment, our management, including our CEO and CFO, has concluded that our internal control over financial reporting was not effective as of December 31, 2019 due to material weaknesses in our internal control over financial reporting described below.

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The Company did not design, implement and operate effective process-level control activities related to order-to-cash (including revenue, customer deposits, accounts receivable, deferred revenue and cost to obtain a contract), procure-to-pay (including operating expenses, accounts payable, and accrued liabilities), hire-to-pay (including compensation expense and accrued liabilities), leases (including accounting for the adoption of the new lease standard, right-of-use asset and lease liability), goodwill, restricted cash, share based compensation, journal entries and preparation of the consolidated financial statements, and other financial reporting processes, as well as accounting for significant unusual transactions.

In addition, the Company did not design, implement and operate effective process-level control activities related to the approval, authorization and disclosure of related party transactions.

The Company did not design, implement, and operate effective general information technology controls (GITCs) over user and privileged access to information technology (IT) systems at multiple components in order to adequately restrict access to appropriate finance and IT personnel and enforce appropriate segregation of duties. As a result, process-level automated control activities and manual control activities that are dependent upon information derived from IT systems were also ineffective.

These deficiencies in process-level control activities and GITCs were largely caused by an ineffective control environment as follows:

- There was not sufficient oversight and governance from the Board of Directors in the design, implementation and execution of internal control over financial reporting;
- The Company did not sufficiently establish structures, reporting lines and appropriate authorities and responsibilities; and
- The Company did not sufficiently attract, develop and retain competent resources and hold them accountable for their internal control responsibilities.

The deficiencies in the control environment also created deficiencies in the Company's risk assessment process, information and communication and monitoring activities as follows:

- Financial reporting objectives were not clearly specified to enable the identification and assessment of risks, including complying with applicable accounting standards;
- The risk assessment process failed to identify and assess risks of misstatement, including fraud risks, to ensure controls were designed and implemented to respond to those risks;
- Changes that could impact the system of internal controls were not identified and assessed;
- Relevant and quality information to support the functioning of internal controls was not consistently generated or used by the Company to support the operation of internal controls;
- Internal communication of information necessary to support the functioning of internal control was not sufficient;
- Communication with external parties on matters affecting the functioning of internal control was not complete;
- The Company did not sufficiently select, develop and perform ongoing evaluations to determine the components of internal control are present and functioning; and
- The evaluation and communication of internal control deficiencies, including monitoring corrective actions, were not performed in a timely manner.

As a result of these deficiencies, material misstatements were identified and corrected in the consolidated financial statements as of and for the year ended December 31, 2019, the restated consolidated financial statements as of and for the years ended December 31, 2018 and 2017 as further described in Note 3 to the consolidated financial statements and the interim financial statements for all interim periods during the years-ended December 31, 2019 and 2018 as further described in Note 20 to the consolidated financial statements. Because there is a reasonable possibility that material misstatement of the consolidated financial statements will not be prevented or detected on a timely basis, we concluded

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the deficiencies represent material weaknesses in our internal control over financial reporting and our internal control over financial reporting was not effective as of December 31, 2019.

Our independent registered public accounting firm, KPMG LLP, who audited the consolidated financial statements included in this annual report, has expressed an adverse report on the operating effectiveness of our internal control over financial reporting. KPMG LLP's report appears on page 74 of this Annual Report.

**Remediation Plan**

We have identified and begun to implement several steps, as further described below, to remediate the material weaknesses described in this Item 9A and to enhance our overall control environment, risk assessment, control activities, monitoring and information and communication. We are committed to ensuring that our internal controls over financial reporting are designed and operating effectively.

- Increase the oversight of the Board of Directors over the remediation plan including the design, implementation and execution of internal controls.
- Establish adequate reporting structure to ensure appropriate authority guidelines are in place and are effective.
- Further develop the detailed remediation plan, with appropriate executive sponsorship and with the assistance of third-party specialists, to specifically address the material weaknesses related to the control environment, risk assessment, information and communication, and monitoring activities.
- Hire, train, and retain individuals with appropriate skills and experience, assign responsibilities and hold individuals accountable for their roles related to internal control over financial reporting.
- Design and implement controls over assigning authority and responsibility of management and others, including related party transactions.
- Design and implement a comprehensive and continuous risk assessment process to identify and assess risks of material misstatement (including fraud risks) and ensure that the impacted financial reporting processes and related internal controls are properly designed and in place to respond to those risks in our financial reporting.
- Enhance the design of existing control activities and implement additional process-level control activities and ensure they are operating effectively.
- Enhance the design of existing GITCs over user and privileged access to IT systems and ensure they are operating effectively to support process-level automated control activities and manual control activities that are dependent upon information derived from IT systems.
- Design and implement additional information and communications controls to ensure use of and obtaining relevant and quality information to allow operation of effective control activities, including internal and external communication.
- Design and implement additional monitoring controls to assess the consistent operation of controls and to remediate deficiencies.

Although we intend to complete the remediation process as promptly as possible, we cannot at this time estimate how long it will take to remediate these material weaknesses. In addition, we may discover additional material weaknesses that require additional time and resources to remediate and we may decide to take additional measures to address the material weaknesses or modify the remediation steps described above. Until these weaknesses are remediated, we plan to continue to perform additional analyses and other procedures to ensure that our consolidated financial statements are prepared in accordance with GAAP.

**Changes in Internal Control over Financial Reporting**

We made the following material changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) during the quarter ended December 31, 2019 to remediate previously reported material weaknesses in our internal control over financial reporting:

- Designed and implemented GITCs over change management and computer operations for the IT system used to account for leases at the Novitex component.

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- Designed and implemented controls over service organizations used to process transactions on our behalf, including complementary end user controls.

There were no other changes in our internal control over financial reporting during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

Information about our executive officers is contained in the section titled "Executive Officers" in Part I of this Annual Report.

The other information required by this Item will be included in our Proxy Statement for the 2020 Annual General Meeting of Shareholders under the captions "Director Nominees," "Continuing Members of the Board of Directors," "Additional Information Concerning the Board of Directors of the Company," Committees of the Board of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance," which will be filed with the SEC no later than June 12, 2020 and is incorporated by reference in this Annual Report.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item will be included in our Proxy Statement for the 2020 Annual General Meeting of Shareholders under the captions "Executive Compensation" and "Director Remuneration," which will be filed with the SEC no later than June 12, 2020 and is incorporated by reference in this Annual Report.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item will be included in our Proxy Statement for the 2020 Annual General Meeting of Shareholders under the caption "Security Ownership of Certain Beneficial Owners and Management" and "Securities Authorized for Issuance under Equity Compensation Plans," which will be filed with the SEC no later than June 12, 2020 and is incorporated by reference in this Annual Report.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item will be included in our Proxy Statement for the 2020 Annual General Meeting of Shareholders under the captions "Certain Relationships and Related Party Transactions" and "Director Independence," which will be filed with the SEC no later than June 12, 2020 and is incorporated by reference in this Annual Report.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item will be included in our Proxy Statement for the 2020 Annual General Meeting of Shareholders under the caption "Independent Registered Public Accounting Firm Fees" which will be filed with the SEC no later than June 12, 2020 and is incorporated by reference in this Annual Report.

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**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

**a) (1) Financial Statements**



**(a)(3) Exhibits**

| Exhibit No. | Description | Filed or Furnished Herewith |
|---|---|---|
| 2.1 | Novitex Business Combination Agreement, dated as of February 21, 2017, by and among Quinpario Acquisition Corp. 2, Quinpario Merger Sub I, Inc., Quinpario Merger Sub II, Inc., Novitex Holdings, Inc., SourceHOV Holdings, Inc., Novitex Parent, L.P, HOVS LLC and HandsOn Fund 4 I, LLC (2) | |
| 3.1 | Restated Certificate of Incorporation, dated July 12, 2017(4) | |
| 3.2 | Second Amended and Restated Bylaws, dated November 6, 2019.(9) | |
| 3.3 | Certificate of Designations, Preferences, Rights and Limitations of Series A Perpetual Convertible Preferred Stock(4) | |
| 3.4 | Waiver of Bylaws(5) | |
| 4.1 | Specimen Common Stock Certificate(1) | |
| 4.2 | Specimen Warrant Certificate(1) | |
| 4.3 | Form of Warrant Agreement between Continental Stock Transfer & Trust Company and the Registrant(1) | |
| 4.4 | Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc. as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee(4) | |
| 4.5 | First Supplemental Indenture, dated July 12, 2017, by and among Exela Intermediate LLC and Exela Finance Inc., as Issuers, the Subsidiary Guarantors set forth therein and Wilmington Trust, National Association, as Trustee(4) | |
| 4.6 | Description of Securities | Filed |
| 10.1 | Modification Agreement, dated as of June 15, 2017(3) | |
| 10.2 | Amended & Restated Registration Rights Agreement, dated July 12, 2017, by and among the Company and the Holders(4) | |
| 10.3 | Exela Technologies, Inc. Director Nomination Agreement, dated July 12, 2017, by and among the Company, the HGM Group and Ex-Sigma 2 LLC(4) | |

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| Exhibit No. | Description | Filed or Furnished Herewith |
|---|---|---|
| 10.4 | First Lien Credit Agreement, dated July 12, 2017, by and among Exela Intermediate Holdings LLC, Exela Intermediate LLC, the Lenders Party Thereto, Royal Bank of Canada, RBC Capital Markets, Credit Suisse Securities (USA) LLC, Natixis, New York Branch and KKR Capital Markets LLC(4) | |
| 10.5 | First Amendment to First Lien Credit Agreement, dated July 13, 2018, by and among Exela Intermediate Holdings LLC, Exela Intermediate LLC, the Lenders Party Thereto, Royal Bank of Canada, RBC Capital Markets, Credit Suisse Securities (USA) LLC, Natixis, New York Branch and KKR Capital Markets LLC(6) | |
| 10.6 | Second Amendment to First Lien Credit Agreement, dated as of April, 16, 2019, by and among Exela Intermediate Holdings LLC, Exela Intermediate, LLC, each Subsidiary Loan Party listed on the signature pages thereto, Royal Bank of Canada, as administrative agent, and each of the lenders party thereto.(7) | |
| 10.7 | Exela Technologies Inc. 2018 Stock Incentive Plan.(8) | |
| 10.8 | Form of Option Grant Notice and Agreement under the Exela Technologies Inc. 2018 Stock Incentive Plan.(8) | |
| 10.9 | Form of Restricted Stock Unit Grant and Agreement under the Exela Technologies Inc. 2018 Stock Incentive Plan.(8) | |
| 10.10 | Exela Technologies, Inc. Executive Officer Annual Bonus Plan.(9) | |
| 10.11 | Loan and Security Agreement, dated as of January 10, 2020, by and among Exela Receivables 1, LLC, as borrower, Exela Technologies, Inc., as initial servicer, TPG Specialty Lending, Inc., as administrative agent, PNC Bank, National Association, as LC Bank, and the lenders from time to time party thereto.(10) | |
| 10.12 | First Tier Purchase and Sale Agreement, dated as of January 10, 2020, by and among Exela Receivables Holdco, LLC, as purchaser, Exela Technologies, Inc., as initial servicer, and BancTec, Inc., Deliverex, LLC, Economic Research Services, Inc., Exela Enterprise Solutions, Inc., SourceHOV Healthcare, Inc., United Information Services, Inc., HOV Enterprise Services, Inc., HOV Services, Inc., HOV Services, LLC, J&B Software, Inc., Novitex Government Solutions, LLC, Regulus Group II LLC, Regulus Group LLC, Regulus Integrated Solutions LLC, SourceCorp BPS Inc. and Sourcecorp Management, Inc., as originators.(10) | |
| 10.13 | Second Tier Purchase and Sale Agreement, dated as of January 10, 2020, by and among Exela Receivables 1, LLC, Exela Receivables Holdco, LLC, and Exela Technologies, Inc.(10) | |
| 10.14 | Sub-Servicing Agreement, dated as of January 10, 2020, by and among Exela Technologies, Inc., as initial servicer, and BancTec, Inc., Deliverex, LLC, Economic Research Services, Inc., Exela Enterprise Solutions, Inc., SourceHOV Healthcare, Inc., United Information Services, Inc., HOV Enterprise Services, Inc., HOV Services, Inc., HOV Services, LLC, J&B Software, Inc., Novitex Government Solutions, LLC, Regulus Group II LLC, Regulus Group LLC, Regulus Integrated Solutions LLC, SourceCorp BPS Inc., Sourcecorp Management, Inc., as sub-servicers.(10) | |
| 10.15 | Guaranty, dated as of January 10, 2010, between Exela Receivables Holdco, LLC and TPG Specialty Lending, Inc.(10) | |
| 10.16 | Performance Guaranty, dated as of January 10, 2010, between Exela Technologies, Inc. and TPG Specialty Lending, Inc.(10) | |
| 10.17 | Membership Interest Purchase Agreement, dated as of March 16, 2020, by and among SourceHOV Tax, LLC, Merco Holdings, LLC, Exela Technologies, Inc., and Gainline Source Intermediate Holdings LLC (11) | |

| Exhibit No. | Description | Filed or Furnished Herewith |
|---|---|---|
| 10.18 | First Amendment to Loan and Security Agreement, First Tier Purchase and Sale Agreement and Second Tier Purchase and Sale Agreement, dated as of March 16, 2020, by and among Exela Receivables 1, LLC, Exela Technologies, Inc., Exela Receivables Holdco, LLC, the Originators, the Lenders, and TPG Specialty Lending, Inc. (11) | |
| 21.1 | Subsidiaries of Exela Technologies Inc. | Filed |
| 23.1 | Consent of KPMG LLP | Filed |
| 31.1 | Certification of the Principal Executive Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 | Filed |
| 31.2 | Certification of the Principal Financial and Accounting Officer required by Rule 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 | Filed |
| 32.1 | Certification of the Principal Executive Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 | Furnished |
| 32.2 | Certification of the Principal Financial and Accounting Officer required by 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 | Furnished |
| 101.INS | XBRL Instance Document | Filed |
| 101.SCH | XBRL Taxonomy Extension Schema | Filed |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | Filed |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase | Filed |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase | Filed |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | Filed |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document and included in Exhibit 101) | |

**(1)** Incorporated by reference to the Registrant's Registration Statement on Form S-1 (SEC File No. 333-198988).

**(2)** Incorporated by reference to the Registrant's Current Report on Form 8-K filed on February 22, 2017.

**(3)** Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on June 21, 2017.

**(4)** Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on July 18, 2017.

**(5)** Incorporated by reference to the Registrantsä

9; Current Report on Form 8-K, filed on December 21, 2017.

**(6)** Incorporated by reference to the Registrants' Current Report on Form 8-

9;K, filed on July 17, 2018.

**(7)** Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on April 17, 2019.

**(8)** Incorporated by reference to the Registrants' Quarterly Report on Form 10-Q, filed on May 10, 2019.

**(9)** Incorporated by reference to the Registrants' Quarterly Report on Form 10-Q, filed on November 12, 2019.

**(10)** Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on January 15, 2020.

**(11)** Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on March 17, 2020.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

| | |
|---|---|
| Dated:<br>June 8, 2020 | By: /s/ RONALD COGBURN<br>Ronald Cogburn, *Chief Executive Officer* |

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| | |
|---|---|
| Dated:<br>June 8, 2020 | By: /s/ RONALD COGBURN<br>Ronald Cogburn, *Chief Executive Officer (Principal Executive Officer) and Director* |
| Dated:<br>June 8, 2020 | By: /s/ SHRIKANT SORTUR<br>Shrikant Sortur, *Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)* |
| Dated:<br>June 8, 2020 | By: /s/ PAR CHADHA<br>Par Chadha, *Chairman of the Board of Directors* |
| Dated:<br>June 8, 2020 | By: /s/ MARTIN P. AKINS<br>Martin P. Akins, *Director* |
| Dated:<br>June 8, 2020 | By: /s/ MARC A. BEILINSON<br>Marc A. Beilinson, *Director* |
| Dated:<br>June 8, 2020 | By: /s/ J. COLEY CLARK<br>J. Coley Clark, *Director* |
| Dated:<br>June 8, 2020 | By: /s/ JOHN H. REXFORD<br>John H. Rexford, *Director* |
| Dated:<br>June 8, 2020 | By: /s/ JAMES G. REYNOLDS<br>James G. Reynolds, *Director* |
| Dated:<br>June 8, 2020 | By: /s/ WILLIAM L. TRANSIER<br>William L. Transier, *Director* |

# Exhibit 17

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 8-K

**CURRENT REPORT**
**Pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): **June 9, 2020**

# EXELA TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

| | | |
|---|---|---|
| **Delaware** | **001-36788** | **47-1347291** |
| (State or other jurisdiction of incorporation or organization) | (Commission File Number) | (I.R.S. Employer Identification Number) |

| | |
|---|---|
| **2701 E. Grauwyler Rd.**<br>**Irving, TX** | **75061** |
| (Address of principal executive offices) | (Zip Code) |

Company's telephone number, including area code: **1-844-935-2832**

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Trading Symbol | Name of Each Exchange on Which Registered |
|---|---|---|
| Common Stock, Par Value $0.0001 per share | XELA | The Nasdaq Stock Market LLC |

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation to the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 or Rule 12b-2 of the Securities Exchange Act of 1934.

☐ Emerging growth company

☐ If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

**Item 2.02 Results of Operation and Financial Condition.**

On June 9, 2020, Exela Technologies, Inc. (the "Company") issued a press release announcing its financial results for the fourth quarter and full year ended December 31, 2019. A copy of the press release is furnished herewith as Exhibit 99.1.

The information in this Current Report on Form 8-K furnished pursuant to Item 2.02, including Exhibit 99.1, shall not be deemed to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to liability under that section, and they shall not be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing. The Company is making reference to non-GAAP financial information in the press release. A reconciliation of the non-GAAP financial measures to the comparable GAAP financial measures is contained in the attached press release.

**Item 9.01 Financial Statements and Exhibits.**

*(d) Exhibits*

| Exhibit Number | Exhibit Description |
|---|---|
| 99.1* | Press Release dated June 9, 2020 |

* Furnished herewith

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: June 9, 2020

EXELA TECHNOLOGIES, INC.

By: /s/Shrikant Sortur
Name: Shrikant Sortur
Title: Chief Financial Officer

EX-99.1 2 tm2020760d2_ex99-1.htm EXHIBIT 99.1

**Exhibit 99.1**

# Exela Technologies, Inc. Reports Fourth Quarter and Full Year 2019 Results

*Files Form 10-K for 2019, including restated results for 2017 and 2018, and for the nine months ended September 30, 2019*
*Achieves revised full year guidance for Revenue and Adjusted EBITDA*
*Conference Call to Discuss Results Scheduled for June 9, 2020 at 5 PM ET*

**Fourth Quarter 2019 Highlights:**

- Revenue of $393.6 million, a decline of 1.5% on a reported basis and 1.1%(1) on a constant currency basis from Q4 2018
- Operating loss of $249.5 million, including $252.4 million of non-cash impairment charges
- Net loss of $304.1 million
- EBITDA(2) loss of $234.5 million
- Adjusted EBITDA(3) of $53.0 million on a reported basis; $53.2 million on a constant currency basis

**Full-Year 2019 Highlights:**

- Revenue of $1,562.3 million, a decline of 1.5% on a reported basis and 0.5%(1) on a constant currency basis
- Operating loss of $321.2 million, including $349.6 million of non-cash impairment charges recorded in the third and fourth quarters of 2019
- Net loss of $509.1 million
- EBITDA(2) loss of $237.1 million
- Adjusted EBITDA(3) of $254.8 million on a reported basis; $255.9 million on a constant currency basis
- Achieved expense savings during 2019 totaling $65 million

**First Half 2020 Highlights:**

- Progress of Debt Reduction and Liquidity Improvement Initiative:
  - Completed a 5-year $160.0 million accounts receivable securitization facility in January 2020
  - Completed the sale of non-core Tax Benefit Group business for $40.0 million in March 2020
- On April 14, Marc Beilinson and William Transier, independent directors were appointed to the Company's board of directors
- On May 15, Shrikant Sortur was promoted to Chief Financial Officer
- Q1 2020 Update:
  - Exela expects to report Q1 2020 revenue in the range of $362-$365.0 million
  - During Q1 2020, Exela reduced its global headcount to 22,058 FTEs or 3% since the 2019 year-end
- Company adjusted its FTE capacity in Q2 to 19,056 FTEs representing 86% of its pre-COVID-19 levels of 22,058 FTEs

**Irving, TX– June 9, 2020** – Exela Technologies, Inc. ("Exela" or the "Company") (NASDAQ: XELA), a location-agnostic global business process automation ("BPA") leader across numerous industries, announced today that it has filed its Annual Report on Form 10-K for the year ended December 31, 2019, including the previously announced restatement of prior period results for 2017, 2018 and the nine months ended September 30, 2019. The Form 10-K also includes relevant quarterly financial information for the years ended December 31, 2018 and 2019.

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"We are pleased to have achieved our revised full year 2019 guidance, including revenue above the high-end of our guidance range," said Ronald Cogburn, Chief Executive Officer of Exela. "The COVID-19 pandemic has posed unprecedented challenges and disruption for companies and communities around the world. Our priorities since the onset of the pandemic have been the health and safety of our global team members and their families, and continuing to provide mission-critical services to our customers. In this regard, with our strategic global footprint, "right-shore" model, and 86% of our team members either enabled to work remotely or less impacted by the pandemic, we have delivered virtually uninterrupted service to our customers. I am incredibly proud of all our global team members for their continued hard work and dedication to serving our customers during this time. Notwithstanding the current economic challenges of COVID-19, we believe our business model remains resilient supported by our strong customer base, the mission-critical nature of the services we provide, our leading suite of services and solutions, and our global delivery excellence."

Mr. Cogburn continued, "Looking to the remainder of 2020 and beyond, we have a plan in place for improved long-term profitable growth and value creation. We will continue to position the Company to focus on growing our base business in core industries such as banking, insurance and healthcare where we provide critical billing and payment solutions. In addition, our strategic priorities include improving our operating income and free cash flow, increasing our liquidity, and reducing our debt. Our previously announced debt reduction and liquidity improvement initiative is an important component of this plan. While we still have work to do, we have made good progress so far in 2020 by closing a new securitized AR facility in January and the divestiture of our Tax Benefit Group business in March, increasing our financial flexibility."

**COVID-19 Positioning**

In response to the COVID-19 pandemic, Exela rapidly initiated a plan to protect the health and safety of its global team members, while continuing to serve customers' needs. Relevant highlights include:

- Favorable employee distribution model with over 60% of the employee base located in Americas and EMEA offers Exela a clear differentiation and edge over competitors
- Minimum volume commitments in many contracts limit the effects of volume reductions
- Rapid response unit set up with an emphasis on solutions that address work-from-home environments such as the Digital Mailroom
- Company adjusted its FTE capacity in Q2 to 19,056 FTEs representing 86% of its pre-COVID-19 levels of 22,058 FTEs

**Fourth Quarter 2019 Financial Highlights**

- **Revenue:** Revenue was $393.6 million, a decline of 1.5% from $399.6 million in the fourth quarter of 2018. Revenue for the Information and Transaction Processing Solutions ("ITPS") segment was $306.7 million, a decline of 5.4% year-over-year, driven primarily by the previously announced low margin contract exit ("LMCE") in the third quarter of 2018 partially offset by growth from existing customers and new wins. Healthcare Solutions ("HS") revenue was $69.8 million, an increase of 24.0% year-over-year, driven primarily by acquisition, new customer growth and increased volumes with existing customers. Legal and Loss Prevention Services ("LLPS") revenue was $17.1 million, a decline of approximately $2.0 million, or 10.3% from the fourth quarter of 2018.

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Revenue excluding the previously announced LMCE and pass through revenues from postage and postage handling with either zero or nominal margins ("pass through revenue") [(4)] was $323.5 million in the fourth quarter of 2019, representing an increase of 1.5% over $318.8 million in the fourth quarter of 2018.

82% of fourth quarter 2019 revenue was in the Americas, 16% was in Europe, and 2% was in rest of world.

- **Operating income / (loss):** Operating loss for the fourth quarter of 2019 was $249.5 million, compared with operating loss of $40.6 million in the fourth quarter of 2018. The year-over-year increase in operating loss is primarily attributable to non-cash goodwill and trade-name impairment charges of $252.4 million recognized in the fourth quarter of 2019, compared with $48.1 million of impairment charges in the fourth quarter of 2018, along with higher SG&A expenses partially offset by lower depreciation and amortization costs. The non-cash goodwill and trade-name impairment charges incurred in the fourth quarter of 2019 were related to the write-down of the carrying values of the ITPS and LLPS segments.

- **Net Loss:** Net Loss for the fourth quarter of 2019 was $304.1 million, compared with a net loss of $86.5 million in the fourth quarter of 2018.

- **Adjusted EBITDA:** Adjusted EBITDA for the fourth quarter of 2019 was $53.0 million, compared to Adjusted EBITDA of $72.7 million in the fourth quarter of 2018. Adjusted EBITDA margin for the fourth quarter of 2019 was 13.5% compared to Adjusted EBITDA margin of 18.2% in the fourth quarter of 2018. The decrease in fourth quarter 2019 Adjusted EBITDA was mainly driven by lower revenue in the ITPS segment, higher SG&A spend, and losses on derivative instruments, partially offset by continued realization of savings flow-through.

  Adjusted EBITDA margin, based on revenue excluding LMCE and pass through revenue, was 16.4% in the fourth quarter of 2019, compared with 22.8% in the fourth quarter of 2018.

- **Capital Expenditures:** Capital expenditures for the fourth quarter of 2019 were 1.2% of revenue compared to 2.6% of revenue in the fourth quarter of 2018.

- **Common Stock:** As of May 1, 2020, there were 147,511,430 total shares of common stock outstanding and an additional 3,923,385 shares of common stock reserved for issuance for our outstanding preferred shares on an as-converted basis.

- Total employees as of December 31, 2019 were 22,766 as compared to 22,715 as of September 30, 2019.

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**Full-Year 2019 Financial Highlights**

- **Revenue:** Revenue was $1,562.3 million, a decline of 1.5% from $1,586.2 million in 2018. Revenue for the ITPS segment was $1,234.3 million, a decline of 3.1% year-over-year, driven primarily by the previously announced LMCE and adverse currency impacts, partially offset by revenue from acquisitions completed in 2018. HS revenue was $256.7 million, an increase of 12.6% year-over-year, driven primarily by acquisition, new customer growth and increased volume with existing customers. LLPS revenue was $71.3 million, representing a decline of 15.6% from 2018. Results in LLPS are event driven and were impacted primarily by lower revenue from legal claims administration services in 2019.

  Revenue excluding the previously announced LMCE and pass through revenue was $1,284.9 million in 2019, representing an increase of 2.9% over $1,248.1 million in 2018.

  Excluding the impact of LMCE and certain other customer exits, full-year 2019 revenue from top-20 customers increased 13% year-over-year, and revenue from top-50 customers increased 11% year-over-year, reflecting the Company's focus on expanding with its largest customers.

  82.3% of full-year 2019 revenue was in the Americas, 16.0% was in Europe and 1.7% was in rest of world.

- **Operating income / (loss):** Operating loss in 2019 was $321.2 million, compared with a loss of $10.7 million in 2018. The year-over-year increase in operating loss was primarily driven by non-cash goodwill and trade-name impairment charges of $349.6 million recognized in 2019, compared with $48.1 million of non-cash impairment charges recognized in 2018, as well as lower revenue and higher SG&A expenses, which were partially offset by lower depreciation and amortization costs. The non-cash goodwill and trade-name impairment charges incurred in 2019 were related to the write-down of the carrying values of the ITPS and LLPS segments.

- **Net Loss:** Net Loss for 2019 was $509.1 million, compared with a net loss of $169.8 million in 2018.

- **Adjusted EBITDA:** Adjusted EBITDA in 2019 was $254.8 million, as compared to Adjusted EBITDA of $276.2 million in 2018. Adjusted EBITDA margin for 2019 was 16.3% compared to Adjusted EBITDA margin of 17.4% in 2018. The decrease in 2019 Adjusted EBITDA was mainly driven by lower revenue in the ITPS and LLPS segments and higher SG&A spend, partially offset by continued realization of savings flow-through.

  Adjusted EBITDA margin, based on revenue excluding LMCE and pass through revenue, was 19.8% in 2019, compared with 22.1% in 2018.

- **Capital Expenditures:** Capital expenditures for 2019 were 1.3% of revenue compared to 1.7% of revenue in 2018.

**Balance Sheet:** At December 31, 2019, Exela's total net debt was $1.509 billion.

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**Debt Reduction and Liquidity Improvement**

On November 12, 2019, Exela announced that its Board of Directors adopted a debt reduction and liquidity improvement initiative ("Initiative"), with the goal of increasing the Company's liquidity to approximately $125.0 to $150.0 million, and repaying debt with a target debt reduction of approximately $150.0 to $200.0 million. In accordance with this Initiative, Exela announced two transactions in the first quarter of 2020.

- On January 15, 2020, Exela announced that it entered into a 5-year, $160.0 million accounts receivable securitization facility to improve liquidity. The facility is for an initial five-year term, may be extended in accordance with its terms, and is incremental to Exela's existing $100.0 million revolving facility maturing in July 2022.

- On March 17, 2020, Exela announced the sale of its Tax Benefit Group ("TBG") business for $40.0 million, or approximately 1.93x 2019 revenue. Net of closing costs and adjustments, this transaction resulted in proceeds of $38.2 million. For full year 2019, TBG generated total revenue of $20.7 million. The Company believes it is on schedule for additional divestitures with expected proceeds in the range of $110.0 million to $160.0 million.

**First Quarter 2020 Update and Full Year 2020 Commentary**

- As previously disclosed, the Company expects to complete its financial statements for the quarter ended March 31, 2020 by June 24, 2020. For the first quarter of 2020, Exela expects to report revenue in the range of $362.0 - $365.0 million. Although Exela is working diligently to complete its financial statements for the first quarter of 2020 by June 24, 2020 no assurance can be given that they will be filed within such period.

- The depth and duration of the economic impact from COVID-19 on Exela and its customers' businesses remains unknown. Given the uncertainties surrounding COVID-19 and its impacts on visibility, Exela is delaying providing financial guidance for full year 2020.

*(1) – Constant currency is a non-GAAP measure. A reconciliation of constant currency is attached to this release.*

*(2) – EBITDA is a non-GAAP measure. A reconciliation of EBITDA is attached to this release.*

*(3) – Adjusted EBITDA is a non-GAAP measure. A reconciliation of Adjusted EBITDA is attached to this release.*

*(4) – Pass through revenue is defined as postage and postage handling revenue with either zero or nominal margins. LMCE is defined as revenue from the low margin contract exit announced in the third quarter of 2018. A reconciliation of revenue net of pass through revenue and LMCE is attached to this release.*

**Earnings Conference Call and Audio Webcast**

Exela will host a conference call to discuss its fourth quarter and year end 2019 financial results at 5 p.m. ET on June 9, 2020. To access this call, dial 833-255-2831 or +412-902-6724 (international). A replay of this conference call will be available through June 16, 2020 at 877-344-7529 or +412-317-0088 (international). The replay passcode is 10144972. A live webcast of this conference call will be available on the "Investors" page of the Company's website (www.exelatech.com). A supplemental slide presentation that accompanies this call and webcast can be found on the investor relations website (http://investors.exelatech.com/) and will remain available after the call.

**About Exela**

Exela Technologies, Inc. ("Exela") is a business process automation (BPA) leader, leveraging a global footprint and proprietary technology to provide digital transformation solutions enhancing quality, productivity, and end-user experience. With decades of expertise operating mission-critical processes, Exela serves a growing roster of more than 4,000 customers throughout 50 countries, including over 60% of the Fortune® 100. With foundational technologies spanning information management, workflow automation, and integrated communications, Exela's software and services include multi-industry department solution suites addressing finance and accounting, human capital management, and legal management, as well as industry-specific solutions for banking, healthcare, insurance, and public sectors. Through cloud-enabled platforms, built on a configurable stack of automation modules, and over 22,000 employees operating in 23 countries, Exela rapidly deploys integrated technology and operations as an end-to-end digital journey partner.

Find out more at www.exelatech.com

Follow Exela on Twitter: https://twitter.com/exelatech

Follow Exela on LinkedIn: https://www.linkedin.com/company/11174620/

**About Non-GAAP Financial Measures:** This press release includes constant currency, EBITDA and Adjusted EBITDA, each of which is a financial measure that is not prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Exela believes that the presentation of these non-GAAP financial measures will provide useful information to investors in assessing our financial performance, results of operations and liquidity and allows investors to better understand the trends in our business and to better understand and compare our results. Exela's board of directors and management use constant currency, EBITDA and Adjusted EBITDA to assess Exela's financial performance, because it allows them to compare Exela's operating performance on a consistent basis across periods by removing the effects of Exela's capital structure (such as varying levels of debt and interest expense, as well as transaction costs resulting from the combination of Quinpario Acquisition Corp. 2, SourceHOV Holdings, Inc. and Novitex Holdings, Inc. on July 12, 2017 (the "Novitex Business Combination") and capital markets-based activities). Adjusted EBITDA also seeks to remove the effects of integration and related costs to achieve the savings, any expected reduction in operating expenses due to the Novitex Business Combination, asset base (such as depreciation and amortization) and other similar non-routine items outside the control of our management team. Optimization and restructuring expenses and merger adjustments are primarily related to the implementation of strategic actions and initiatives related to the Novitex Business Combination. All of these costs are variable and dependent upon the nature of the actions being implemented and can vary significantly driven by business needs. Accordingly, due to that significant variability, we exclude these charges since we do not believe they truly reflect our past, current or future operating performance. The constant currency presentation excludes the impact of fluctuations in foreign currency exchange rates. We calculate constant currency revenue and Adjusted EBITDA on a constant currency basis by converting our current-period local currency financial results using the exchange rates from the corresponding prior-period and compare these adjusted amounts to our corresponding prior period reported results. Exela does not consider these non-GAAP measures in isolation or as an alternative to liquidity or financial measures determined in accordance with GAAP. A limitation of these non-GAAP financial measures is that they exclude significant expenses and income that are required by GAAP to be recorded in Exela's financial statements. In addition, they are subject to inherent limitations as they reflect the exercise of judgments by management about which expenses and income are excluded or included in determining these non-GAAP financial measures and therefore the basis of presentation for these measures may not be comparable to similarly-titled measures used by other companies. These non-GAAP financial measures are not required to be uniformly applied, are not audited and should not be considered in isolation or as substitutes for results prepared in accordance with GAAP. Net loss is the GAAP measure most directly comparable to the non-GAAP measures presented here. For reconciliation of the comparable GAAP measures to these non-GAAP financial measures, see the schedules attached to this release.

**Restatement:** As previously disclosed in the Company's Current Report on Form 8-K filed with the SEC on March 17, 2020, the board of directors of the Company, based on the recommendation of the audit committee and in consultation with management, concluded that, because of errors identified in the Company's previously issued financial statements for the fiscal years ended December 31, 2018 and 2017 and the first three quarters of fiscal 2019, the Company would restate its previously issued financial statements, including the quarterly data for fiscal years 2019 and 2018 and its selected financial data for the relevant periods. The adjustments made as a result of the restatement are more fully discussed in Note 3, Restatement of Previously Issued Financial Statements, of the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K filed with the SEC on June 9, 2020. Previously filed annual reports on Form 10-K and quarterly reports on Form 10-Q for the periods affected by the restatement have not been amended. Accordingly, investors should no longer rely upon the Company's previously released financial statements for these periods and any earnings releases, investor presentations or other communications relating to these periods, and, for these periods, investors should rely solely on the financial statements and other financial data for the relevant periods included in the above referenced Annual Report. All amounts in this release affected by the restatement adjustments reflect such amounts as restated.

**Forward-Looking Statements:** Certain statements included in this press release are not historical facts but are forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Forward-looking statements generally are accompanied by words such as "may", "should", "would", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "seem", "seek", "continue", "future", "will", "expect", "outlook" or other similar words, phrases or expressions. These forward-looking statements include statements regarding our industry, future events, the estimated or anticipated future results and benefits of the Novitex Business Combination, future opportunities for the combined company, including potential divestitures and other statements that are not historical facts. These statements are based on the current expectations of Exela management and are not predictions of actual performance. These statements are subject to a number of risks and uncertainties, including without limitation those discussed under the heading "Risk Factors" in Exela's most recently filed Annual Report on Form-10-K filed with the Securities and Exchange Commission. In addition, forward-looking statements provide Exela's expectations, plans or forecasts of future events and views as of the date of this communication. Exela anticipates that subsequent events and developments will cause Exela's assessments to change. These forward-looking statements should not be relied upon as representing Exela's assessments as of any date subsequent to the date of this press release.

**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Balance Sheets**
**As of December 31, 2019 and December 31, 2018**
*(in thousands of United States dollars except share and per share amounts)*

| | December 31, 2019 | December 31, 2018 (As Restated) |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 6,198 | $ 36,206 |
| Restricted cash | 7,901 | 7,648 |
| Accounts receivable, net of allowance for doubtful accounts of $4,975 and $4,359, respectively | 261,400 | 270,812 |
| Related party receivables | 716 | — |
| Inventories, net | 19,047 | 16,220 |
| Prepaid expenses and other current assets | 23,663 | 24,937 |
| **Total current assets** | **318,925** | **355,823** |
| Property, plant and equipment, net of accumulated depreciation of $176,995 and $154,060, respectively | 113,637 | 132,986 |
| Operating lease right-of-use assets, net | 93,627 | — |
| Goodwill | 359,771 | 708,258 |
| Intangible assets, net | 342,443 | 395,020 |
| Deferred income tax assets | 12,032 | 16,345 |
| Other noncurrent assets | 17,889 | 19,391 |
| **Total assets** | **$ 1,258,324** | **$ 1,627,823** |
| | | |
| **Liabilities and Stockholders' Equity (Deficit)** | | |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payables | $ 86,167 | $ 99,853 |
| Related party payables | 1,740 | 15,363 |
| Income tax payable | 352 | 1,996 |
| Accrued liabilities | 121,553 | 107,355 |
| Accrued compensation and benefits | 48,574 | 52,211 |
| Accrued interest | 48,769 | 49,071 |
| Customer deposits | 27,765 | 34,235 |
| Deferred revenue | 16,282 | 16,504 |
| Obligation for claim payment | 39,156 | 56,002 |
| Current portion of finance lease liabilities | 13,788 | 17,498 |
| Current portion of operating lease liabilities | 25,345 | — |
| Current portion of long-term debts | 36,490 | 29,237 |
| **Total current liabilities** | **465,981** | **479,325** |
| Long-term debt, net of current maturities | 1,398,385 | 1,306,423 |
| Finance lease liabilities, net of current portion | 20,272 | 26,738 |
| Pension liabilities | 25,681 | 27,641 |
| Deferred income tax liabilities | 7,996 | 11,214 |
| Long-term income tax liabilities | 2,806 | 3,024 |
| Operating lease liabilities, net of current portion | 73,282 | — |
| Other long-term liabilities | 6,962 | 14,717 |
| **Total liabilities** | **2,001,365** | **1,869,082** |
| Commitments and Contingencies (Note 14) | | |

| | | |
|---|---|---|
| **Stockholders' equity (deficit)** | | |
| Common stock, par value of $0.0001 per share; 1,600,000,000 shares authorized; 153,638,836 shares issued and 150,851,689 shares outstanding at December 31, 2019 and 152,692,140 shares issued and 150,142,955 shares outstanding at December 31, 2018 (including in each case the 4,570,734 shares returned to the Company in the first quarter of 2020 in connection with the Appraisal Action) | 15 | 15 |
| Preferred stock, par value of $0.0001 per share; 20,000,000 shares authorized; 4,294,233 shares issued and outstanding at December 31, 2019 and 4,569,233 shares issued and outstanding at December 31, 2018 | 1 | 1 |
| Additional paid in capital | 445,452 | 445,452 |
| Less: common stock held in treasury, at cost; 2,787,147 shares at December 31, 2019 and 2,549,185 shares December 31, 2018 | (10,949) | (10,342) |
| Equity-based compensation | 49,336 | 41,731 |
| Accumulated deficit | (1,211,508) | (702,392) |
| Accumulated other comprehensive loss: | | |
| Foreign currency translation adjustment | (7,329) | (6,423) |
| Unrealized pension actuarial losses, net of tax | (8,059) | (9,301) |
| Total accumulated other comprehensive loss | (15,388) | (15,724) |
| **Total stockholders' deficit** | **(743,041)** | **(241,259)** |
| **Total liabilities and stockholders' deficit** | **$ 1,258,324** | **$ 1,627,823** |

**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Operations for the three and twelve months ended December 31, 2019, 2018 and 2017**
*(in thousands of United States dollars except share and per share amounts)*

| | Years ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 (As Restated) | 2017 (As Restated) |
| Revenue | $ 1,562,337 | $ 1,586,222 | $ 1,145,891 |
| Cost of revenue (exclusive of depreciation and amortization) | 1,224,735 | 1,213,403 | 827,544 |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | 198,864 | 184,908 | 220,955 |
| Depreciation and amortization | 100,903 | 138,077 | 98,890 |
| Impairment of goodwill and other intangible assets | 349,557 | 48,127 | 69,437 |
| Related party expense | 9,501 | 12,403 | 33,431 |
| **Operating loss** | **(321,223)** | **(10,696)** | **(104,366)** |
| **Other expense (income), net:** | | | |
| Interest expense, net | 163,449 | 155,991 | 129,676 |
| Debt modification and extinguishment costs | 1,404 | 1,067 | 35,512 |
| Sundry expense (income), net | 969 | (3,271) | 2,295 |
| Other expense (income), net | 14,429 | (3,030) | (1,297) |
| **Net loss before income taxes** | **(501,474)** | **(161,453)** | **(270,552)** |
| Income tax (expense) benefit | (7,642) | (8,353) | 61,068 |
| **Net loss** | **$ (509,116)** | **$ (169,806)** | **$ (209,484)** |
| Dividend equivalent on Series A Preferred Stock related to beneficial conversion feature | — | — | (16,375) |
| Cumulative dividends for Series A Preferred Stock | (3,309) | (3,655) | (2,489) |
| **Net loss attributable to common stockholders** | **$ (512,425)** | **$ (173,461)** | **$ (228,348)** |
| **Loss per share:** | | | |
| Basic and diluted | $ (3.52) | $ (1.17) | $ (2.18) |

**Exela Technologies, Inc. and Subsidiaries**
**Consolidated Statements of Cash Flows**
**For the year ended December 31, 2019, 2018 and 2017**
*(in thousands of United States dollars unless otherwise stated)*

| | Years ended December 31, | | |
|---|---|---|---|
| | 2019 | 2018 (As Restated) | 2017 (As Restated) |
| **Cash flows from operating activities** | | | |
| Net loss | $ (509,116) | $ (169,806) | $ (209,484) |
| Adjustments to reconcile net loss | | | |
| Depreciation and amortization | 100,903 | 138,077 | 98,890 |
| Fees paid in stock | — | — | 28,573 |
| HGM contract termination fee paid in stock | — | — | 10,000 |
| Original issue discount and debt issuance cost amortization | 11,777 | 10,913 | 12,280 |
| Debt modification and extinguishment costs | 1,049 | 103 | 34,459 |
| Impairment of goodwill and other intangible assets | 349,557 | 48,127 | 69,437 |
| Provision for doubtful accounts | 4,304 | 2,767 | 500 |
| Deferred income tax provision | 1,093 | 3,220 | (67,545) |
| Share-based compensation expense | 7,827 | 7,647 | 6,743 |
| Foreign currency remeasurement | (511) | (1,180) | 1,382 |
| Loss (gain) on sale of assets | 556 | 2,687 | 556 |
| Fair value adjustment for interest rate swap | 4,337 | (2,540) | (1,297) |
| Change in operating assets and liabilities, net of effect from acquisitions | | | |
| Accounts receivable | 4,410 | (19,319) | (4,832) |
| Prepaid expenses and other assets | (4,825) | (2,820) | 1,029 |
| Accounts payable and accrued liabilities | (19,588) | 8,815 | 77,171 |
| Related party payables | (14,339) | 918 | 4,907 |
| Additions to outsource contract costs | (1,285) | (4,009) | (10,992) |
| **Net cash provided by (used in) operating activities** | **(63,851)** | **23,600** | **51,777** |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | (14,360) | (20,072) | (14,440) |
| Additions to internally developed software | (6,182) | (7,438) | (7,843) |
| Cash acquired in Quinpario reverse merger | — | — | 91 |
| Cash paid in acquisition, net of cash received | (5,000) | (34,810) | (423,797) |
| Proceeds from sale of assets | 360 | 3,568 | 4,607 |
| **Net cash provided by (used in) investing activities** | **(25,182)** | **(58,752)** | **(441,382)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Change in bank overdraft | — | — | (210) |
| Proceeds from issuance of stock | — | — | 204,417 |
| Cash received from Quinpario | — | — | 22,333 |
| Repurchases of common stock | (3,480) | (7,221) | (249) |
| Contribution from Shareholders | — | — | 20,548 |
| Cash paid for equity issuance costs | — | (7,500) | (149) |
| Net borrowings under factoring arrangement | 3,307 | — | — |
| Cash paid for withholding taxes on vested RSUs | (223) | — | — |
| Lease terminations | (318) | (592) | (157) |
| Retirement of previous credit facilities | — | — | (1,055,736) |
| Cash paid for debt issuance costs | (7) | (130) | (38,784) |

| | | | |
|---|---|---|---|
| Principal payments on finance lease obligations | (20,465) | (16,068) | (11,361) |
| Borrowings from senior secured revolving facility | 206,500 | 30,000 | 72,600 |
| Repayments on senior secured revolving facility | (141,500) | (30,000) | (72,500) |
| Proceeds from issuance of notes | — | — | 977,500 |
| Proceeds from senior secured term loans | 29,850 | 30,000 | 343,000 |
| Borrowings from other loans | 39,153 | 11,557 | 3,116 |
| Principal repayments on senior secured term loans and other loans | (53,678) | (12,651) | (27,955) |
| **Net cash provided by (used in) financing activities** | **59,139** | **(2,605)** | **436,413** |
| Effect of exchange rates on cash | 139 | 122 | 429 |
| **Net decrease in cash and cash equivalents** | **(29,755)** | **(37,635)** | **47,237** |
| Cash, restricted cash, and cash equivalents | | | |
| Beginning of period | 43,854 | 81,489 | 34,252 |
| End of period | $ 14,099 | $ 43,854 | $ 81,489 |
| | | | |
| **Supplemental cash flow data:** | | | |
| Income tax payments, net of refunds received | $ 7,882 | $ 7,827 | $ 5,711 |
| Interest paid | 144,456 | 146,076 | 69,622 |
| **Noncash investing and financing activities:** | | | |
| Assets acquired through right-of-use arrangements | 10,732 | 14,920 | 6,973 |
| Leasehold improvements funded by lessor | — | 1,565 | 146 |
| Issuance of common stock as consideration for Novitex | — | — | 244,800 |
| Accrued capital expenditures | 1,402 | 2,820 | 1,621 |
| Dividend equivalent on Series A Preferred Stock | — | — | 16,375 |
| Liability assumed of Quinpario | — | — | 4,698 |

**Exela Technologies**
**Schedule 1: Fourth Quarter and Full Year 2018 vs. Fourth Quarter and Full Year 2019 Financial Performance**

| **$ in millions** | **Q4'19 Actual** | **Q4'18 As restated** | **Change ($)** | **FY19 Actual** | **FY18 As restated** | **Change ($)** |
|---|---|---|---|---|---|---|
| Information and Transaction Processing Solutions | 306.7 | 324.3 | (17.6) | 1,234.3 | 1,273.6 | (39.4) |
| Healthcare Solutions | 69.8 | 56.3 | 13.5 | 256.7 | 228.0 | 28.7 |
| Legal and Loss Prevention Services | 17.1 | 19.1 | (2.0) | 71.3 | 84.6 | (13.2) |
| **Total Revenue** | **393.6** | **399.6** | **(6.1)** | **1,562.3** | **1,586.2** | **(23.9)** |
| ***% change*** | ***-1.5%*** | | | ***-1.5%*** | | |
| Cost of revenue (exclusive of depreciation and amortization) | 314.9 | 306.7 | 8.2 | 1,224.7 | 1,213.4 | 11.3 |
| **Gross profit** | **78.7** | **93.0** | **(14.3)** | **337.6** | **372.8** | **(35.2)** |
| ***as a % of revenue*** | ***20.0%*** | ***23.3%*** | | ***21.6%*** | ***23.5%*** | |
| SG&A | 49.7 | 48.1 | 1.6 | 198.9 | 184.9 | 14.0 |
| Depreciation and amortization | 24.4 | 33.7 | (9.3) | 100.9 | 138.1 | (37.2) |
| Impairment of goodwill and other intangible assets | 252.4 | 48.1 | 204.3 | 349.6 | 48.1 | 301.4 |
| Related party expense | 1.7 | 3.7 | (1.9) | 9.5 | 12.4 | (2.9) |
| **Operating (loss) income** | **(249.5)** | **(40.6)** | **(208.9)** | **(321.2)** | **(10.7)** | **(310.5)** |
| Interest expense, net | 43.2 | 39.0 | 4.2 | 163.4 | 156.0 | 7.5 |
| Loss on extinguishment of debt | - | - | - | 1.4 | 1.1 | 0.3 |
| Sundry expense (income) & Other income, net | 9.4 | 3.5 | 5.9 | 15.4 | (6.3) | 21.7 |
| **Net loss before income taxes** | **(302.1)** | **(83.1)** | **(219.1)** | **(501.5)** | **(161.5)** | **(340.0)** |
| Income tax expense (benefit) | 2.0 | 3.4 | (1.5) | 7.6 | 8.4 | (0.7) |
| **Net income (loss)** | **(304.1)** | **(86.5)** | **(217.6)** | **(509.1)** | **(169.8)** | **(339.3)** |
| Depreciation and amortization | 24.4 | 33.7 | (9.3) | 100.9 | 138.1 | (37.2) |
| Interest expense, net | 43.2 | 39.0 | 4.2 | 163.4 | 156.0 | 7.5 |
| Income tax expense (benefit) | 2.0 | 3.4 | (1.5) | 7.6 | 8.4 | (0.7) |
| **EBITDA** | **(234.5)** | **(10.4)** | **(224.1)** | **(237.1)** | **132.6** | **(369.7)** |
| **EBITDA Adjustments** | | | | | | |
| **1 Gain / loss on derivative instruments** | (0.6) | 2.9 | (3.5) | 4.3 | (1.9) | 6.2 |
| **2 Non-Cash and Other Charges** | 271.9 | 59.0 | 212.9 | 407.9 | 86.4 | 321.6 |
| **3 Transaction and integration costs** | 1.5 | 2.0 | (0.5) | 5.7 | 4.8 | 0.9 |
| **Sub-Total (Adj. EBITDA before O&R)** | **38.3** | **53.6** | **(15.3)** | **180.9** | **221.9** | **(41.1)** |
| **4 Optimization and restructuring expenses** | 14.7 | 19.1 | (4.4) | 73.9 | 54.2 | 19.7 |
| Process Transformation | 14.0 | 17.4 | (3.4) | 69.2 | 51.1 | 18.1 |
| Customer Transformation | - | - | - | 0.1 | - | 0.1 |
| M & A | 0.7 | 1.7 | (1.0) | 4.6 | 3.2 | 1.5 |
| **Adjusted EBITDA** | **53.0** | **72.7** | **(19.6)** | **254.8** | **276.2** | **(21.4)** |
| ***% change*** | ***-27.0%*** | | | ***-7.7%*** | | |
| ***as a % of revenue*** | ***13.5%*** | ***18.2%*** | ***-5%*** | ***16.3%*** | ***17.4%*** | ***-1%*** |

**Exela Technologies**
**Schedule 2: Reconciliation of Adjusted EBITDA and constant currency revenues**

**Non-GAAP constant currency revenue reconciliation**

| | Three months ended | | Twelve months ended | |
|---|---|---|---|---|
| | 31-Dec-19 | 31-Dec-18 | 31-Dec-19 | 31-Dec-18 |
| ($ in millions) | Actual | As restated | Actual | As restated |
| **Revenues, as reported (GAAP)** | **$ 393.6** | **$ 399.6** | **$ 1,562.3** | **$ 1,586.2** |
| Foreign currency exchange impact (1) | 1.8 | | 15.2 | |
| **Revenues, at constant currency (Non-GAAP)** | **$ 395.4** | **$ 399.6** | **$ 1,577.5** | **$ 1,586.2** |

(1) Constant currency excludes the impact of foreign currency fluctuations and is computed by applying the average exchange rates for the three months
and twelve months ended December 31, 2018, to the revenues during the corresponding period in 2019.

**Reconciliation of Adjusted EBITDA**

| | Three months ended | | Twelve months ended | |
|---|---|---|---|---|
| | 31-Dec-19 | 31-Dec-18 | 31-Dec-19 | 31-Dec-18 |
| ($ in millions) | Actual | As restated | Actual | As restated |
| **Net loss (GAAP)** | **$ (304.1)** | **$ (86.5)** | **$ (509.1)** | **$ (169.8)** |
| Interest expense | 43.2 | 39.0 | 163.4 | 156.0 |
| Taxes | 2.0 | 3.4 | 7.6 | 8.4 |
| Depreciation and amortization | 24.4 | 33.7 | 100.9 | 138.1 |
| **EBITDA (Non-GAAP)** | **$ (234.5)** | **$ (10.4)** | **$ (237.1)** | **$ (132.6** |
| Transaction and integration costs | 1.5 | 2.0 | 5.7 | 4.8 |
| Optimization and restructuring expenses | 14.7 | 19.1 | 73.9 | 54.2 |
| Gain / loss on derivative instruments | (0.6) | 2.9 | 4.3 | (1.9) |
| Other Charges | 271.9 | 59.0 | 407.9 | 86.4 |
| **Adjusted EBITDA (Non-GAAP)** | **$ 53.0** | **$ 72.7** | **$ 254.8** | **$ 276.2** |
| Foreign currency exchange impact (1) | 0.1 | | 1.1 | - |
| **Adjusted EBITDA, at constant currency (Non-GAAP)** | **$ 53.2** | **$ 72.7** | **$ 255.9** | **$ 276.2** |

(1) Constant currency excludes the impact of foreign currency fluctuations and is computed by applying the average exchange rates for the three months
and nine months ended December 31, 2018, to the adjusted EBITDA during the corresponding period in 2019.

exela TECHNOLOGIES

**Schedule 3: Non-GAAP Revenue reconciliation & Adjusted EBITDA margin on Revenue net of pass through & LMCE**

**Non-GAAP revenue reconciliation & Adjusted EBITDA margin on revenue net of pass through & LMCE**

| | Three months ended | | | | Twelve months ended | | | |
|---|---|---|---|---|---|---|---|---|
| | **31-Dec-19** | | **31-Dec-18** | | **31-Dec-19** | | **31-Dec-18** | |
| ($ in millions) | Actual | | As restated | | Actual | | As restated | |
| **Revenues, as reported (GAAP)** | **$** | **393.6** | **$** | **399.6** | **$** | **1,562.3** | **$** | **1,586.2** |
| (-) Postage & postage handling | | 70.1 | | 77.2 | | 275.3 | | 310.1 |
| **Revenue - Net of pass through (Non-GAAP)** | **$** | **323.5** | **$** | **322.4** | **$** | **1,287.0** | **$** | **1,276.1** |
| (-) LMCE | | - | | 3.6 | | 2.1 | | 28.0 |
| **Revenue - Net of pass through & LMCE (Non-GAAP)** | **$** | **323.5** | **$** | **318.8** | **$** | **1,284.9** | **$** | **1,248.1** |
| Revenue growth % | | 1.5% | | | | 2.9% | | |
| **Adjusted EBITDA (Non-GAAP)** | **$** | **53.0** | **$** | **72.7** | **$** | **254.8** | **$** | **276.2** |
| **Adjusted EBITDA margin** | | **16.4%** | | **22.8%** | | **19.8%** | | **22.1%** |

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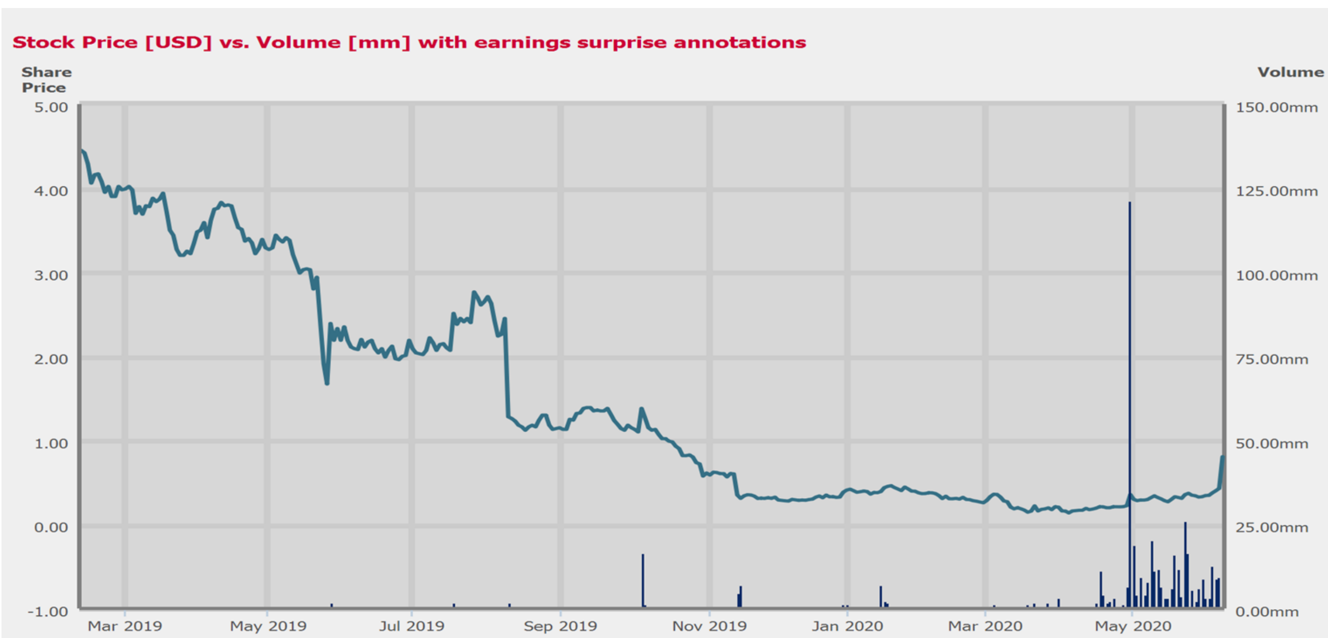
# Exhibit 18

S&P Global
Market Intelligence

# Exela Technologies, Inc. NasdaqCM:XELA
# FQ4 2019 Earnings Call Transcripts
## Tuesday, June 09, 2020 9:00 PM GMT
## S&P Global Market Intelligence Estimates

| | -FQ4 2019- | | | -FQ1 2020- | -FY 2019- | | | -FY 2020- |
|---|---|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS |
| EPS (GAAP) | (0.15) | (2.19) | NM | (0.05) | (1.48) | (3.52) | NM | (0.31) |
| Revenue (mm) | 388.42 | 393.60 | ▲1.33 | 394.38 | 1555.26 | 1562.34 | ▲0.46 | 1555.80 |

Currency: USD
Consensus as of Mar-27-2020 7:05 PM GMT




- EPS (GAAP) -

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| FQ1 2019 | (0.06) | (0.21) | NM |
| FQ2 2019 | (0.05) | (0.23) | NM |
| FQ3 2019 | (0.07) | (0.89) | NM |
| FQ4 2019 | (0.15) | (2.19) | NM |

# Table of Contents

# Call Participants

**EXECUTIVES**

**Ronald Clark Cogburn**
*CEO & Director*

**Shrikant Sortur**
*Chief Financial Officer*

**William Maina**
*Senior Vice President*

**ANALYSTS**

**Brandon Osten;Venator;CEO, Founder**

**David P. Foropoulos;Unum;Assistant VP**

**Howard Yim;Avenue Capital;Associate**

**Jerry Wang;Carlyle;Principal**

**Matthew Sandschafer;Mesirow;Senior Vice President**

# Presentation

**Operator**

Good afternoon. And welcome to the Exela Technologies Fourth Quarter 2019 Financial Results Conference Call. [Operator Instructions] Please note, this event is being recorded. I would now like to turn the conference over to Will Maina. Please go ahead.

**William Maina**
*Senior Vice President*

Thanks, Grant. Good afternoon, everyone, and welcome to the Exela Technologies Fourth Quarter and Full Year 2019 Conference Call. I'm joined here by Ron Cogburn, Exela's Chief Executive Officer; and Shrikant Sortur, our Chief Financial Officer. Today's conference call is being broadcast live via webcast, which is available on the Investor Relations page of Exela's website at exela.com. A replay of this call will be available until June 16. Information to access the replay is listed in today's press release, which is also available on the Investor Relations page of Exela's website.

During today's call, Exela will make certain statements regarding future events and financial performance that may be characterized as forward-looking under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to known and unknown risks and uncertainties and are based on current expectations and assumptions. We undertake no obligation to update any statements to reflect the events that occur after this call and actual results could differ materially from any forward-looking statements. For more information, please refer to the risk factors discussed in Exela's most recent filed public report on Form 10-K along with the associated press release and the company's other filings with the SEC. Copies are available from the SEC or the Investor Relations page of Exela's website.

During today's call, we will refer to certain non-GAAP financial measures. We believe these non-GAAP measures provide additional information on how management views the operating performance of the business. Reconciliations between GAAP and non-GAAP results we discuss on today's call can be found on the Investor Relations page of our website. Please note the presentation that accompanies this conference call and investor fact sheet are also accessible on the IR page of our website.

I would now like to turn the call over to our CEO, Ron Cogburn. Ron?

**Ronald Clark Cogburn**
*CEO & Director*

Good afternoon, and thanks, everyone, for joining us today. Before we begin, on behalf of Exela, I would like to say that our hearts go out to those affected by the COVID-19 pandemic. These past few months have posed unprecedented challenges worldwide, and we're doing everything in our power to ensure the continued safety of our global team members while delivering the level of service that our customers have come to expect from Exela. I am incredibly proud and thankful for all of our team members rising to this challenge and working tirelessly to ensure that we continue to serve as a trusted partner to our customers.

I'm also pleased to announce that this morning, we filed our 10-K for 2019 with the SEC, which includes restated and audited financials for the years ending December 31, 2017 and 2018 and restated quarterly financials for the first 3 quarters of 2019. We continue to work to finish our March 31, 2020, Q1 reporting and we expect to complete that process by June 24. Our goal has been to complete this entire process as soon as possible while ensuring that our efforts were comprehensive.

We have a lot to cover today. I will begin with a brief overview of our 2019 results and some recent highlights. I'll then turn the call over to Shrikant Sortur who will discuss our fourth quarter and full year 2019 results in more detail, including the impact of the restatement on our financials. Shrikant will also provide some key updates for the first half of 2020 and our thoughts for the rest of the year. After Shrikant's presentation, I'll come back and talk about our key business objectives for 2020 and beyond.

Finally, I'll close by addressing the impact of COVID-19 on our business and discuss our positioning and response in this evolving situation.

Let's begin with Slide #6, and I'll discuss our 2019 financial summary and recent highlights. Our full year 2019 total revenue on a constant currency basis was $1.57 billion, down 0.5% year-over-year but exceeding the high end of our revised guidance provided in November of 2019. Full year revenue, excluding postage and postage handling and the previously announced low-margin client exit, grew 2.9% to $1.28 billion in 2019, details of which can be found in the fact sheet and our earnings release and presentation.

We generated $256 million of adjusted EBITDA on a constant currency basis in 2019, meeting our prior revised guidance range. Our adjusted EBITDA margin was 20% when excluding pass-through and low-margin client exit revenues. In early 2020, we improved our liquidity position by executing against the strategic initiatives we announced last November, including entering into a new accounts receivable facility in January and completing Phase 1 of our noncore asset divestitures in March. As of May 29, we had approximately $106 million of total global liquidity.

Finally, we strengthened our Board and our senior management team in the past couple of months. First, we appointed Marc Beilinson and William Transier to our Board of Directors, and I believe we will benefit from their combined experience and fresh perspective. Also, we are excited to promote Shrikant Sortur as our new CFO. Shrikant brings tremendous financial leadership and experience and unparalleled knowledge to our complex financial operations, having served as our Executive Vice President for Global Finance since 2017 and as the SVP of Finance for SourceHOV for the 13 years prior to that. Shrikant is a trusted colleague and I believe is the right choice to help take Exela forward and execute our strategies in 2020 and beyond.

With that, I'll turn the call over to Shrikant. Shrikant?

**Shrikant Sortur**
*Chief Financial Officer*

Thanks, Ron. Let me start by saying that it's a pleasure to join this conversation and help share our story and vision. I'm excited to continue contributing to the growth of Exela in my new role as CFO. I will begin by providing an update on the restatement of our prior-period financial results.

Before getting into the details, though, I would like to highlight 3 important facts: First, the impact of the restatement to our reported revenue and adjusted EBITDA was not material; Second, there was no material change in our revenue recognition principles from the restatement; Third, there were no change in our cash accounting policies with all historical cash balances remaining unchanged except for a reclassification between restricted and unrestricted cash.

As previously disclosed, in March, the Audit Committee in conjunction with management and the company's auditors concluded that our financial statements for 2017, 2018 and for the first 3 quarters of 2019 could no longer be relied upon to certain misstatements. The accounting review and audit process of our 10-K was a very thorough and time-intensive process. As a result, 2017 and 2018 along with quarters in 2019, were affected by the restatement. To put this in perspective and as more fully explained in the footnotes to the audited financial statements, the magnitude of adjustments to our historical numbers during the cumulative period from Q3 of 2017 to Q3 of 2019 were, in my opinion, minimal and as follows: a net cumulative reduction of $4.5 million or minus 0.1% to our cumulative reported revenue; an increase of approximately $20 million or 3.6% to our reported net loss; a reduction of $12.8 million or minus 1.7% to our reported adjusted EBITDA, a non-GAAP measure; and no impact on cash and cash equivalents. All cash corrections were in the nature of classification adjustments, but no changes to total cash.

Now digging a little deeper. There were 5 primary issues that were corrected during the restatement process. First, the nonaccrual of a loss contingency related to dissenting shareholders arising out of the Novitex business combination, which we also refer to as appraisal action. The correction of this misstatement resulted in a $43.1 million of accrued liability through the end of September 30, 2019. That includes the fair market value of the shares and for cumulative quarterly interest.

Second, we had 2 revenue recognition related adjustments. We made a correction of $6.4 million to 2017 revenue related to a multiple element arrangement that included a software license under the previous revenue recognition guidance in ASC 605. The correction of this error was recorded as an adjustment to our ASC 606 implementation in 2018. We also corrected for gross versus net presentation guidance under ASC 606 for a contract in 2019, which resulted in an increase of $1.9 million in revenue for the 9 months ended September 30, 2019.

Third, we made corrections to expense certain contract costs that were previously capitalized under ASC 34040 for cost of fulfilling contracts. These are under the category outsourced contract costs on our balance sheet. The correction was limited to the capitalization of employee training related costs during the setup phase as cost of fulfilling contracts, which would have been expensed under ASC 34040. The cumulative impact of these adjustments through September 30, 2019 was an increase of $15.4 million to the cost of revenue, offset by a reduction of $13.3 million of amortization of expenses for a total net impact of $2.1 million to net lots.

Fourth, we made expense reimbursement adjustments for certain related party transactions. We made corrections to the under accrual of secondary offering expenses, premium payments and legal expenses resulting in a cumulative total of $12.4 million charged to related party expense in our consolidated income statements.

And fifth, cash flow classification due to the incorrect interpretation and retrospective application of ASU 2016-16 on the topic of classification of certain receipts and cash payments. In 2018, we classified the loss on extinguishment of debt as cash flows from financing activities instead of cash flows from operating activities, which resulted in a $0.1 million and $34.5 million understatement of operating cash flows and overstatement of financing cash flows for the years ended December 31, 2018 and 2017, respectively. There are no changes to cash and cash equivalents due to this misclassification.

Finally, moving forward, there will be 1 primary impact to our reported results arising from restatement. As I just mentioned, we will no longer capitalize employee training-related costs during the setup phase and we'll expense them in the period in which they were incurred in accordance with ASC 34040. This change will modestly reduce our gross profit in future periods but will have a netting effect on our adjusted EBITDA. For additional details regarding adjustments, please refer to our 2019 10-K. The restatement and related impact is covered extensively on our explanatory notes on Note 3 for the restatement of previously issued financial statements and Note 20 for unaudited quarterly financial data.

Now I would like to provide a review of our financial results for the fourth quarter and full year 2019. Moving to Slide 7. I will begin with our fourth quarter 2019 results. Revenue for the fourth quarter totaled $393.6 million. On a constant currency basis, Q4 revenue was $395.4 million, representing a decline of 1.5% year-over-year.

In looking at our segments, revenue for our ITPS segment was $306.7 million, a decrease of 5.4% year-over-year from $324.3 million in the fourth quarter of 2018. This decrease was driven primarily by the impact of the low-margin contract exit which we have discussed in the third quarter of 2018, partially offset by growth from existing customers and new business wins.

Our Healthcare Solutions segment revenue totaled $69.8 million, up 24% year-over-year from $56.3 million in the fourth quarter of 2018. Our results in Healthcare Solutions were driven mainly by acquisition, new client growth and increased volume from existing clients.

Our Legal and Loss Prevention segment revenue or LLPS, was $17.1 million in the fourth quarter compared with $19.1 million in the fourth quarter of 2018. As a reminder, our results in LLPS are event-driven and project-based, which causes our revenue to be lumpy between quarters.

Gross profit margin for the fourth quarter was approximately down 330 basis points year-over-year. The gross margin decline was primarily due to our revenue decline and wage increases offset by continued transformation and cost-saving initiatives. As part of our fourth quarter review, the company concluded that a triggering event had occurred for an interim impairment analysis. As a result, during the quarter,

the company recorded a noncash impairment charge to goodwill of $252.4 million related to the write-down of carrying values for our ITPS and LLPS segments.

Operating loss for the fourth quarter of 2019 was $249.5 million compared with operating loss of $40.6 million in the fourth quarter of 2018. The year-over-year increase in operating loss was primarily due to the noncash impairment charge of $254.4 million that I just discussed versus an impairment charge of $48.1 million in the fourth quarter of 2018, as well as our lower gross margin partially offset by lower D&A expenses.

Turning to EBITDA and adjusted EBITDA. In the fourth quarter of 2019, we generated an EBITDA loss of $234.5 million. Our largest adjustments to arrive at adjusted EBITDA included noncash and other charges and optimization and restructuring expenses. We recorded noncash and other charges of $271.9 million in the fourth quarter. This bucket includes the noncash impairment charge, costs associated with employee cash severance, onetime cost and customer exit cost. Our adjustment for optimization and restructuring expenses totaled $14.7 million in the fourth quarter of 2019.

Adjusted EBITDA for the quarter totaled $53 million, a decrease from $72.7 million in Q4 of 2018. Adjusted EBITDA margin for the fourth quarter was 13.5% compared with 18.2% in the fourth quarter of 2018. Excluding pass-through revenues and the low-margin client exit, our Q4 2019 adjusted EBITDA margin was 16.4%.

Now turning to a summary of our financial year 2019 results. For the full year 2019, revenue totaled $1.56 billion. Our 2019 revenue in constant currency was $1.57 billion or down 0.5% year-over-year, exceeding our prior guidance range. From a segment perspective, ITPS revenue totaled $1.23 billion in the year, a decline of 3.1%, driven primarily by the low-margin client exits and adverse currency translation impact. Healthcare Solutions revenue was $256.7 million, up 12.6% year-over-year, driven mainly by the same factors impacting our Q4 health care results. Finally, our LLPS revenue totaled $71.3 million compared to $84.6 million in 2018, primarily driven by projects that generated lower revenue in 2019 compared to 2018. Excluding pass-through revenue with nominal margin and the low-margin client exit, our fiscal 2019 revenue totaled $1.28 billion, an increase of 2.9% over 2018 comparable results.

Gross profit margin for 2019 was down approximately 190 basis points versus 2018 and impacted by top line performance and wage increases that was offset by ongoing transformation and cost-saving initiatives. Gross margin net of pass-through revenues and low-margin contract exit was 26.3% in 2019. SG&A for 2019 totaled $198.9 million, up 7.6% year-over-year and represented 12.7% of revenue. Growth in the 2019 SG&A primarily reflects higher RSUs and legal and professional fees, partly offset by savings realization.

Depreciation and amortization expense for the year was $100.9 million, down from $138.1 million in 2018 due to the fact that in prior years, we had accelerated amortization of trade names that are no longer being used. Operating loss was $321.2 million in 2019 compared with operating loss of $10.7 million for 2018. The change in operating loss was mainly attributable to noncash goodwill and trade name impairment charges of $349.6 million recognized in 2019 as compared to the $48.1 million of noncash charges recognized in 2018 as well as the lower revenue and higher SG&A offset by lower D&A costs.

EBITDA loss in 2019 was $237.1 million. Our adjusted EBITDA for the full year 2019 totaled $254.8 million compared to $276.2 million in 2018. Adjusted EBITDA margin was 16.3% compared with 17.4% in 2018. On a constant currency basis, the 2019 adjusted EBITDA was $256 million, in line with our prior revised guidance. Our adjusted EBITDA margin, excluding pass-through revenue and low-margin client exit was 19.8% in 2019 compared with 22.1% in 2018.

Turning to Slide 8. As Ron covered this in the financial highlights summary, we are pleased to have achieved our revised full year 2019 guidance for revenue and adjusted EBITDA. Our 2019 revenue of $1.57 billion was above the high end of our guidance range.

Now turning to Slide 10. I would like to discuss some key first half 2020 highlights. As we have discussed, one of our key priorities is the successful execution of our debt reduction and liquidity improvement initiative, which we formally announced in November 2019. I'm pleased to say that we have made

significant progress in executing our plans so far in 2020, increasing our liquidity to $106 million at the end of May, supported by 2 important transactions. First, in January, we completed a 5-year $160 million accounts receivable securitization facility, improving our overall liquidity position. This facility is an addition to our existing $100 million revolver which matures in 2022. The interest rate on the facility is LIBOR plus 675 basis points and is relatively covenant light. Regarding the second transaction, in March, we completed the sale of our tax benefit group, or TBG business, to Gainline Capital for $40 million. The TBG business mainly provides tax strategy services to CPA firms and their clients and generated $20.7 million of revenue in 2019. The deal represents a 2019 revenue of approximately 1.9x. TBG was not central to our long-term business strategy and the sale enabled us to increase our financial flexibility while advancing our priority to focus on our core business. From the buyer's perspective, we believe we have acquired a great asset, and we believe the TBG business will benefit going forward from being a Gainline portfolio company. We continue to pursue additional non-core asset sales, targeting $150 million to $200 million in total proceeds from asset sales including TBG.

Moving to the first quarter of 2020. As Ron mentioned, we're working diligently to complete our March 31, 2020 10-Q, and currently expect to finish that process by June 24. On a preliminary basis, we currently expect our Q1 total revenue to be $362 million to $365 million, representing a decline of 9.7% to 10.5% year-over-year.

Turning to Slide 11. Our liquidity at December 31, 2019 was $31 million, and our total net debt was approximately $1.5 billion. As I mentioned, we are pleased with the improvement we have made in our liquidity position in 2020. Helped by our AR facility and asset sale, our total liquidity improved from $31 million at December 31, 2019, to $97 million at March 31, 2020. As of May 29, 2020, we had total liquidity of approximately $106 million.

Before turning the call back to Ron, and as we noted in our earnings press release, given the continued uncertainties surrounding COVID-19 and its impact on our visibility, we are delaying providing financial guidance for full year 2020. However, I would like to provide you with some color on the key factors that we expect to influence our results for the balance of this year. First, we currently expect the adverse effects of COVID-19 on customer volumes and our financial results to have the most impact in the second quarter before improving in the second half of 2020. We've cautioned, however, that a continuation of COVID-19 outbreaks could further impact the market and our performance.

Second, our focus for 2020 and beyond is to continue to drive growth in our base business by expanding with our existing clients, especially among our top 200 and within our BFSI and health care customer portfolios and winning new client logos. In this light, we continue to win new business and are pleased with our pipeline momentum in early 2020. At the same time, as part of the strategy, we are increasing our focus in 2020 on exiting certain underperforming contracts with little or no margin contribution.

Third, we'll continue to pursue noncore asset sales at valuations that are accretive to our business. Fourth, in response to COVID-19, we're adjusting our capacity and cost structure, including scaling back on FTEs and certain discretionary compensation. We will also experience additional cost savings as a result of reduced travel and the like. And finally, our capital allocation policy is to prioritize improving our liquidity and cash flow. As mentioned, we continue to pursue an incremental $110 million to $150 million in noncore asset sales in support of this strategy over the next 18 months.

With that, I'll turn the call back over to Ron. Ron?

**Ronald Clark Cogburn**
*CEO & Director*

Thanks, Shrikant. Let's turn to Slide #12, where I'd like to spend some time on our priorities for 2020 and beyond. The top half of the slide covers the good progress that we've made against our debt reduction and liquidity improvement initiative by executing on the AR facility and the noncore TBG business sale. We are focused and committed to fully executing this initiative, and I look forward to providing you with updates on our progress over the coming quarters. The bottom half of the slide discusses our 3 key objectives to driving improved operating income and cash flow generation. These objectives include, first, amid the COVID-19 disruption, we're increasing our focus on helping customers accelerate their digital

transformation with solutions that address the new normal. Necessity is one of the greatest motivations for innovation. For example, we've seen an uptick from our customers seeking digital solutions such as our digital mailroom offering which enables work from home, mobile or in-office employees to digitally receive mail enabling performance of critical functions. I'm a huge fan of DMR, I use it daily.

Second, we are focused on driving growth of our core or what we call our base business. This includes expanding with existing and new clients within our BFSI and health care industry segments where we provide mission-critical billing and payment solutions. We believe our unique digital transformation and intelligent automation capabilities will continue to enable Exela to win large contracts in these markets that are long-term with high-margin potential over time.

Regarding our third objective. As part of our focus on our base business and also improving our liquidity, we will continue to exit certain nonstrategic businesses via asset sale. As we've discussed above, our goal is to raise an incremental $110 million to $160 million of total proceeds through this process for a total of $150 million to $200 million, which I mentioned last quarter.

Now let's turn to Slide #14. Notwithstanding the economic impact of COVID-19 on our results, we are very pleased with our rapid execution of initiatives that have helped to mitigate the near-term disruption of the pandemic on our business. Shortly after the onset of the pandemic, we put in place rigorous business continuity and employee safety plans, which enable us to maintain 96% of our business processes deliveries to our customers. We also established a rapid response solution framework that was going to address the needs of our customers in the context of the COVID-19 pandemic. As of last week, the pipeline associated with that solution framework has grown by almost $70 million since mid-March.

Equally as important and fortunate for us, we have a resilient business model, which is supported by our strong customer base, the mission-critical nature of the solutions we provide, favorable customer contracts and our unique global delivery model, combining on-site with nearshore and offshore delivery. For example, Exela was deemed an essential service provider in the Americas and EMEA for services, including payment processing, bills and related exceptions for the financial sector, health care industry and local and state and federal governments. Our employee distribution with over 60% of our employees based in the Americas and EMEA is also proving to be a clear differentiator versus our competitors who have struggled with the widespread lockdowns in geographies where the majority of their delivery personnel reside. We also have minimum volume clauses in many of our contracts, which helps limit the downside impact from macro events like COVID-19. Finally, we have a scalable and flexible business model with elasticity between volumes and capacity. We adjusted our active FTEs by approximately 14% in response to the volume reductions due to COVID-19. Some of the volume reductions are a result of the increased delays in our pipeline, which is partly due to the changes in our customers' priority in this current environment as they explore a larger transition to digital transformation, including our DMR, payments and billing digital solutions. Our capacity will be brought back online by a combination of digital transformation and increased FTEs to meet the increasing demand as volumes begin to recover.

Now turning to Slide #15. I want to highlight this slide because these testimonials illustrate how important our partnership and our solutions are to our customers and how we have stepped up to help them navigate these challenging times. I am incredibly proud of all of our global team members for their unwavering commitment to Exela and to the customers we serve.

In closing, while there is a significant uncertainty in the world today, we are confident in our plan for 2020 and beyond. In the near term, Exela is very well positioned to deliver mission-critical services and solutions to our clients in these uncertain times. Longer term, we have set into motion a plan that focuses on growing our core business, improving our operating income and cash flow, increasing our liquidity and reducing our debt. Our previously announced debt reduction and liquidity improvement initiative is a very important component of this plan, and we are pleased with the progress thus far. I believe that we have the right plan and team in place to deliver improved profitability, a stronger balance sheet and long-term value creation for our stakeholders, and I look forward to sharing details of our progress in future quarters.
Thank you for your time. And this concludes our formal conference.

# Question and Answer

**Operator**

[Operator Instructions] Our first question will come from David Foropoulos with Unum.

**David P. Foropoulos;Unum;Assistant VP**

Can you talk about, going forward, where you see your margins, your EBITDA margins playing out? They've been on a downward trend here for a while. And I know you're facing some headwind -- demand headwinds right now with COVID and such. But where do you see these getting back to as we move forward? And then along with that, can you talk about maybe what your process transformation charges could be this year, just ballpark?

**Shrikant Sortur**
*Chief Financial Officer*

Sure. Thanks for the question, David. From a margin perspective, obviously, we want to continue executing with Q1 and Q2 as it is, as you briefly heard some of the discussions. We will continue to see softness potentially, but we expect by the end of the year to be in the range that we have been historically. We do not give out guidance right now. So I'll probably stick to not giving you specific numbers, but a lot of initiatives are on to get our margins back up.

And in terms of your second question. Again, we're not guiding to where our optimization and restructuring expenses will be. We continue to invest a lot in the business. So we expect transformational cost -- to incur transformational costs. Again, we wouldn't want to guide anything at this point in time.

**David P. Foropoulos;Unum;Assistant VP**

Great. If I can have a follow-up on that. On the legal liability that was part of the restatement, $40-plus million or so, is that anything that's imminent in terms of hitting cash flow in terms of that payment?

**Shrikant Sortur**
*Chief Financial Officer*

This -- the company does not typically comment on an ongoing litigation in a forum such as this. There are discussions on, there are actions on that management has to take. So I would say, yes, there's potentially an impact, but still nothing at this point in time that we can share.

**Operator**

Our next question will come from Brandon Osten with Venator.

**Brandon Osten;Venator;CEO, Founder**

Sorry, not a lot here until we see the Q1. But can you talk about your -- I mean, we talked about deleverage. Can you talk about using some of your new found liquidity, the buyback, essentially debt in the open market? I mean, you can spend $25 million right now to take out $100 million in debt, and that would take out like $8 million in annual interest expenses. So can you give me a sense of your capability to do that or your desire or interest to do that?

**Shrikant Sortur**
*Chief Financial Officer*

Brandon, thanks for the question. The way I kind of -- if you look at some of the priorities that we listed, the key call out would be our immediate focus is to conserve liquidity and grow cash flows to buy back debt from open market. It's not something that we have kind of discussed, it's just to conserve cash at this point in time.

**Operator**

Our next question will come from Howard Yim with Avenue Capital.

**Howard Yim;Avenue Capital;Associate**

Hope everyone is doing well. I have 2 main questions. First is, can you provide any color on contract renewals and any new wins? In the conversations you're having with clients, are you seeing any deferrals, are you seeing any pushback or in terms of any dialogue with how people are thinking about their contracts during COVID?

**Shrikant Sortur**
*Chief Financial Officer*

Sure. Howard, first of all, we are doing well. Hope the same with you. Thanks for asking. I'll put it this way, we have not lost any contract during this phase. We do see that customers are focused on getting their house back in order, work from home, whatnot. What I'll do say is we're seeing a lot of interest and demand for our DMR, the digital mailroom. So that's where all of our focus has been. So while there's a slowdown in volumes, last part of Q1 and almost all of Q2, from a sales perspective, from a pipeline perspective, you're seeing good growth right from middle of March, actually.

**Ronald Clark Cogburn**
*CEO & Director*

This is Ron. Let me jump in there as well, Howard. I mentioned some of the uptick in the interest in some of our solutions and services that really facilitate the work from home model. We had some of our larger customers that we were able to help pivot toward the DMR solution. And literally overnight, they were able to put thousands of their employees on that solution, much like Exela. We use that ourselves. And I think you heard me mention, I'm a big fan, I use it every week. And it really does facilitate a gap and a need in the market right now as we get back to whatever this new normal is.

**Howard Yim;Avenue Capital;Associate**

That's helpful and great to hear. And just to clarify on that point about DMR. Are you seeing that demand come from new potential customers as well? Or is that primarily you're seeing that from existing customers who are rejiggering some of their services?

**Ronald Clark Cogburn**
*CEO & Director*

Well, that's a good question, Howard. I think for the most part, we see a lot of it from our existing customer base because, number one, we're a trusted partner with them. And number two, they are more familiar with our solutions and services. But we have seen a few new logos, believe it or not, during this very unusual time. So we're very encouraged about what we see going forward. And I would say, a little bit of glimmer of light when it comes to what we think about the second half of the year.

**Howard Yim;Avenue Capital;Associate**

That's great. If I could squeeze 1 more question. I saw the valuation multiples for the TBG business in the presentation, that was helpful. As you think about the additional divestitures for the remainder of the year, are you thinking similar range of multiples or attractiveness in terms of value?

**Ronald Clark Cogburn**
*CEO & Director*

Well, we typically don't talk about the multiples. But everything we do has to be accretive for us. So as that information becomes available, we will share it with you.

**Operator**

Our next question will come from Matthew Sandschafer with Mesirow.

**Matthew Sandschafer;Mesirow;Senior Vice President**

I wanted to ask a couple of questions here. One is, can you tell us what the balance was on the accounts receivable securitization facility as of June 5 or whatever the liquidity date was you provided?

**Shrikant Sortur**
*Chief Financial Officer*

Did you mean the balance? Okay, when you say balance, are you talking about the borrowing base or are you talking about availability or?

**Matthew Sandschafer;Mesirow;Senior Vice President**

Yes. I believe you stated it was fully utilized as of June 8, right? How much is that -- what is full utilization on that facility based on the borrowing base that you had as of June 8, I guess?

**Shrikant Sortur**
*Chief Financial Officer*

Right. We have not guided -- kind of disclosed what -- how much we have utilized. It's $160 million facility. Our borrowing base is not the whole $160 million. At this point in time, we have used up all of our borrowing base. It's -- the way it works for purchase receivables, the balance changes on a daily basis. We have certain availability as of the date that we provided. I believe it's May 29 that we talked about the liquidity. And because it changes, I prefer not to kind of disclose it. The other thing that I would like to say is the ineligibles do change quite a lot. We have levers of work -- we have -- we've been working on levers to get the borrowing base increased as well. I know I'm not answering your question. I'm side stepping it. It's just because it's a moving number, therefore, prefer not to talk about it.

**Matthew Sandschafer;Mesirow;Senior Vice President**

Okay. Can you -- you mentioned in the press release, other customer -- certain other customer exits. Can you provide some sort of sizing on the revenue loss there, revenue foregone, I guess?

**Shrikant Sortur**
*Chief Financial Officer*

In your -- again, that would tantamount to providing a guidance. We have -- we've been so busy trying to wrap up the 10-K which, as you know, we've gone through the whole restatement process and the delays. We would probably guide to it or provide more details on our Q1 call.

**Matthew Sandschafer;Mesirow;Senior Vice President**

Okay. Then last question here. I guess we'll see if I can go 0 of 3. Can you provide any kind of size on the total cost savings related to the FTE reduction, cut in travel, anything like that so I have some idea what the cost base might look like going forward?

**Shrikant Sortur**
*Chief Financial Officer*

Okay. Again, I love you -- sorry that I kind of -- I'm giving you cagey answers here, right. So let me talk about it in this way because again, it tantamount to a guidance that we are still not put out there, right? So what I would say is from a cost savings initiative, particularly the topic that I touched upon, knowing that potentially COVID impact is there for Q2, we are adjusting our costs to make sure that our margins are not eroded as a result of the revenue decline. Let me put it that way. And then on top of it, we continue to execute on our savings initiative.

**Operator**

Our last question today will come from Jerry Wang with Carlyle.

**Jerry Wang;Carlyle;Principal**

My question was really around just the cost savings. If you could quantify it, it sounds like maybe would be difficult to do so. I guess the question, so when you say that you would, I guess, decrease your

expense base in line with your revenues, would you -- are you finding success in that, I guess? Or do you find it difficult to do that when you're kind of rightsizing?

**Shrikant Sortur**
*Chief Financial Officer*

We are, right? We are from the perspective, be it furloughs, be it initiatives that are on. We do have a certain aspect of variable cost element built into it. We are not 100% variable when it comes to our cost structure. But then when there's a revenue decline, there is a variable element that also is taken care of.

**Jerry Wang;Carlyle;Principal**

Can you say what piece of your expense base is variable?

**Shrikant Sortur**
*Chief Financial Officer*

Mainly to do with our capacity, right? Mainly to do with our capacity and people. They're hourly based employees, there are the furloughed employees to adjust to our revenue.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Ron Cogburn for any closing remarks.

**Ronald Clark Cogburn**
*CEO & Director*

Thanks, Grant. Once again, we appreciate and thank everybody for their participation today. As I mentioned in my remarks, as soon as about June 24, you will see and hear from us again as we report on Q1 2020. Thanks again, everyone, and we'll see you then.

**Operator**
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.